United States General Accounting Office

GAO

Report to the Chairman, Subcommittee on Insular and International Affairs, House Committee on Interior and Insular Affairs

April 1992

AMERICAN SAMOA

Inadequate Management and Oversight Contribute to Financial Problems

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-246710

April 7, 1992

The Honorable Ron De Lugo
Chairman, Subcommittee on Insular
and International Affairs
Committee on Interior and
Insular Affairs
House of Representatives

Dear Mr. Chairman:

This report responds to your letter requesting that we review American Samoa's financial practices and the Department of the Interior's oversight of budgetary assistance provided to the territory.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to the Secretary of the Interior and the Governor of American Samoa. We will also make copies available to other interested parties upon request.

The report was prepared under the direction of Harold J. Johnson, Director, Foreign Economic Assistance Issues. He can be reached at (202) 275-5790 should you or your staff have any questions. Other major contributors are listed in appendix III.

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Assistant Comptroller General

Executive Summary

Purpose

American Samoa, a self-governed U.S. territory, began in fiscal year 1986 to accumulate a deficit in its General Fund, its primary operating fund. The General Fund deficit increased rapidly from about $500,000 in 1987, accumulating to $17.6 million by fiscal year 1990, and was expected to increase by another $6.5 million in fiscal year 1991. The fiscal year 1990 budget for the General Fund was $56.9 million.

Concerned about this growing deficit, the Chairman of the Subcommittee on Insular and International Affairs, House Committee on Interior and Insular Affairs, requested that GAO (1) assess American Samoa's financial conditions during the past decade leading to the increase in deficit spending, (2) evaluate the impact of local revenues on the territorial government's financial situation, (3) examine financial management practices for major government operations, and (4) determine whether the Department of the Interior exercised adequate oversight in providing federal assistance.

Background

Under Interior's administration since 1951, American Samoa has progressed toward greater self-government. In 1977, the Secretary of the Interior approved an amendment to American Samoa's constitution providing for the popular election of a governor. Legislation passed by Congress in 1983 removed the Secretary's authority to approve further constitutional changes; however, Interior retains key oversight responsibilities with respect to the territory's use of federal funds. The territory heavily depends on federal financial assistance, which currently constitutes more than 60 percent of its budget.

Results in Brief

The financial condition of the American Samoa government deteriorated rapidly in the latter half of the 1980s. To cover General Fund shortfalls, the government transferred increasing amounts of money from other funds. By fiscal year 1991, the government was experiencing severe cash flow problems and was having trouble making payments.

American Samoa's financial situation worsened despite substantial growth in local revenues since 1980. Corporate tax revenues have been difficult to predict, and a considerable portion of income taxes from individuals and businesses has not been collected.

The territorial government's poor financial management practices have been a primary cause of its deteriorating financial condition. The

government has poorly managed high-cost areas, such as the off-island medical referral program and procurement.

The Department of the Interior's efforts to improve American Samoa's financial management have been ineffective. American Samoa has not fully complied with conditions attached to the operating assistance it receives, and Interior has been lenient in enforcing compliance. In addition, American Samoa has been slow to respond to recommendations by Interior's Office of the Inspector General.

Principal Findings

Financial Condition Deteriorated Rapidly After Fiscal Year 1986

The American Samoa government operated with a General Fund deficit for all but 2 fiscal years between 1980 and 1990, but the territory's financial condition deteriorated most rapidly between fiscal years 1987 and 1990. During this period the General Fund deficit grew from $500,000 to $17.6 million, liabilities exceeded assets, cash reserves were depleted, and money was transferred from other government funds. American Samoa twice developed financial recovery plans to improve its financial condition, but these plans were only partially implemented and had little effect in reducing the deficit.

The government's financial situation worsened further in fiscal year 1991. An official in American Samoa's Department of the Treasury told GAO that in May 1991 the government was experiencing such severe cash flow problems that it was not paying some vendors and was having trouble paying employees. In mid-1991, the territory financed its deficit spending by borrowing $5 million from the Employees' Retirement Fund, a trust fund it had previously left untouched.

Tax Revenues Are Difficult to Predict, and Collection Efforts Are Inadequate

American Samoa's annual local revenues increased by 17 percent from the first half to the second half of the 1980s, but the government has had difficulty projecting revenue levels. Corporate taxes, the single largest revenue source, have been especially erratic and difficult to predict. In addition, American Samoa's Tax Office has not ensured that individuals and businesses pay taxes on all their income. Interior's Inspector General estimated that by failing to collect all income taxes, American Samoa lost nearly 6.3 percent of its fiscal year 1987 local General Fund revenues, and GAO found that this problem has continued.

Poor Financial Management Practices Result in Excess Expenditures

American Samoa has inadequate internal controls for ensuring that its regulations and procedures for managing expenditures are followed. In fiscal year 1990, expenditures for 17 government departments and programs exceeded budget appropriations by $4.5 million, a violation of American Samoa law. The Department of Health accounted for $3.4 million of this overrun. GAO found that many of these health costs might have been avoided if procedures for approving and processing patients for off-island medical care had been followed.

Laws prohibiting the obligation or expenditure of funds in excess of amounts appropriated have been routinely disregarded, and procurement and contacting procedures and regulations have been ignored. Responsible officials have not been held accountable for their actions. Many of these problems are long-standing and have been brought to American Samoa's attention by external and internal audit reports.

Interior Has Not Enforced Conditions on Operating Assistance

Interior's policy since 1983 has been to request no increases in operating assistance for American Samoa. Consequently, assistance has declined in constant dollars and has decreased in proportion to General Fund expenditures—from 50 percent in fiscal year 1984 to 35 percent in fiscal year 1990. Interior expected this policy would promote increases in local revenue collections, but revenue collections have not grown enough to cover expenditures.

Congress and Interior have attached conditions on this assistance aimed at compelling the territory to improve its financial management practices. However, Interior has not enforced these conditions. For example, Interior required American Samoa to implement a plan to control fiscal year 1988 expenditures before $5.4 million in assistance would be released, but Interior released the funds despite the fact that American Samoa reported almost $3 million in budget overruns that year and did not implement elements of the plan. Interior has been reluctant to withhold funds because of the potential impact on critical government services.

Interior's Inspector General has reported extensively on deficiencies in American Samoa's financial practices, but the territory has been slow to implement its recommendations.

Matters for Congressional Consideration

The Congress may wish to direct the Secretary of the Interior to condition the disbursement of operating assistance to American Samoa on the territorial government's implementation of sound financial management practices, including (1) enforcing Samoa's prohibitions on obligations or expenditures in excess of appropriations, (2) adhering to procurement and contracting regulations, (3) improving management of the off-island medical referral program, (4) holding responsible officials accountable for violating laws and regulations governing these activities, and (5) promptly implementing the recommendations of Interior's Inspector General.

The Congress may also wish to require the Secretary to report to the cognizant authorization and appropriation committees the status of financial management weaknesses as identified by GAO and the Department's Inspector General and through the Single Audit Act.

Recommendations

GAO makes several recommendations in chapters 3, 4, and 5 to the Secretary of the Interior that are intended to ensure that the American Samoa government improves its financial management practices.

Agency Comments

In commenting on a draft of this report the Department of the Interior agreed with the report findings and the validity of the recommendations. However, it questioned the legal and supervisory authority of the Secretary to force adherence to the report's recommendations. GAO did not intend to imply that the Secretary should directly supervise the Governor of American Samoa's financial management efforts. GAO believes, however, that the Secretary can be more forceful in using the authority he has as the administrator of federal funds to ensure that American Samoa improves its financial management practices. (See ch. 5 and app. I.)

In its comments on a draft of this report, the American Samoa government generally concurred with the report's findings and recommendations, but it disagreed with some specific findings. For example, the government stated that (1) sole source procurements are limited to emergency purchases and procurements where there is only one known source and (2) complete and accurate records of procurement transactions are maintained. To the contrary, GAO found that competitive bidding requirements were disregarded, sole source procurements were not properly justified, and contract files lacked adequate documentation. (See ch. 2, 3, and 4 and app. II.)

Contents

Abbreviations

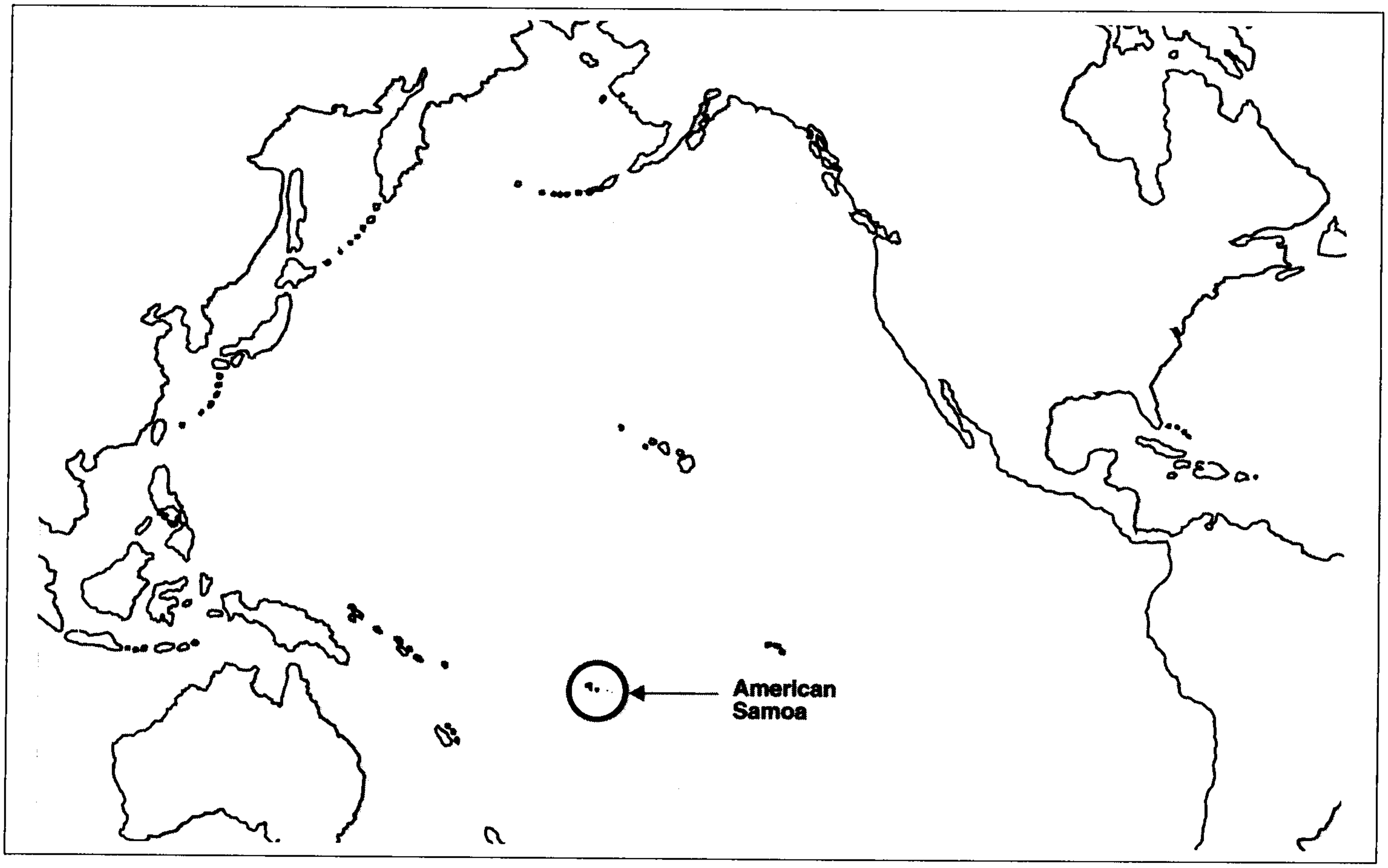
GAO	General Accounting Office
TIA	Territorial and International Affairs

Chapter 1

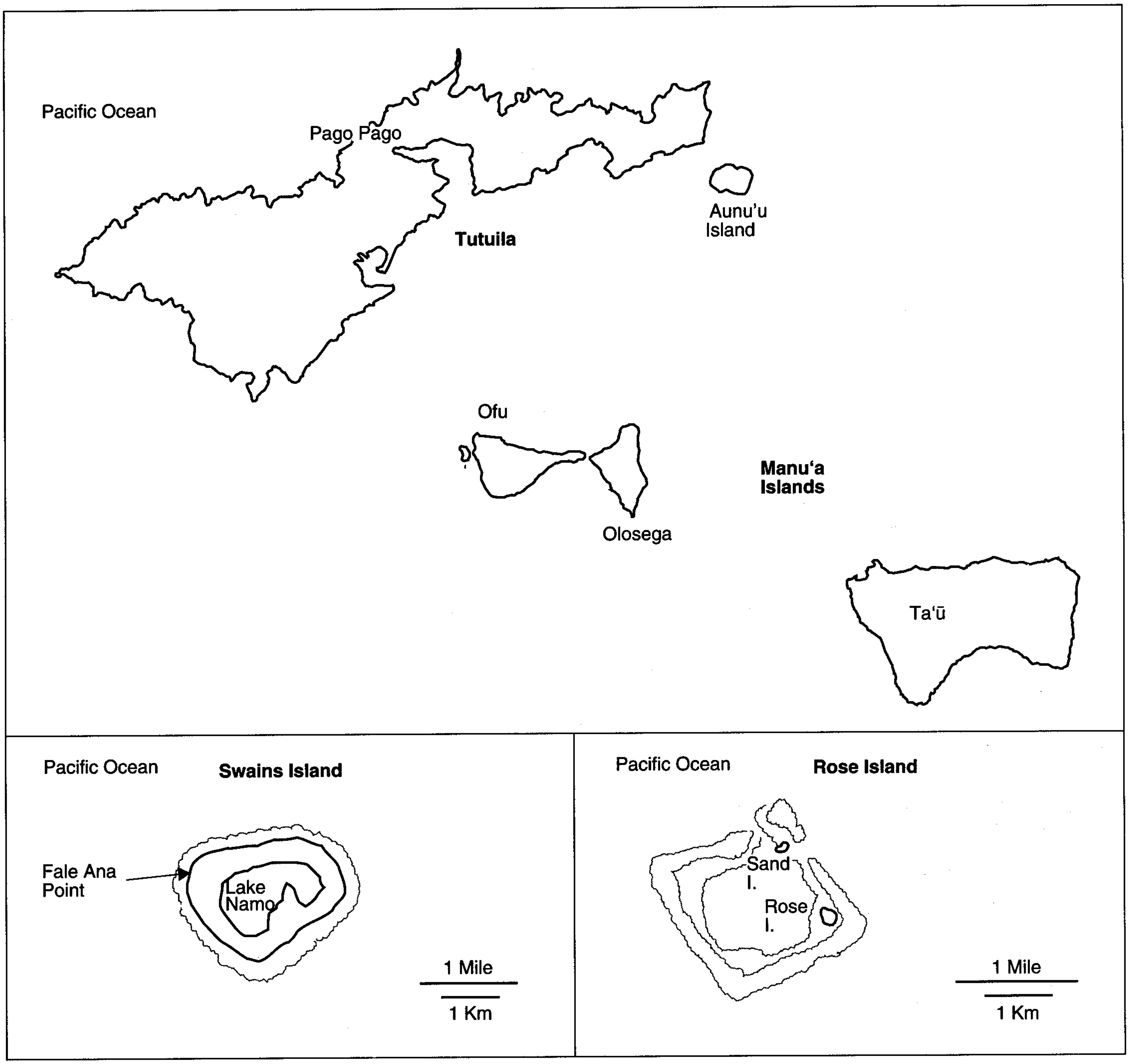
Introduction

American Samoa is an unincorporated territory of the United States located in the South Pacific about 2,300 miles southwest of Hawaii.[1] The territory consists of seven islands with a total land mass of approximately 76 square miles. (See fig. 1.1.) The largest island is Tutuila, which has a total of about 54 square miles. Government operations and a great portion of the commercial activities on Tutuila are in the Pago Pago Bay area. The Manu'a islands—Ta'u, Ofu, and Olosega—lie about 60 miles east of Tutuila and constitute most of the remaining land area. Aunu'u, Swains Island, and the uninhabited Rose Atoll are the other three islands of the American Samoa group.

Figure 1.1: American Samoa



[1]The term "unincorporated" refers, in part, to the fact that the U.S. Constitution does not apply in full to American Samoa.


Pacific Ocean
Pago Pago
Tutuila
Aunu'u Island
Ofu
Manu'a Islands
Olosega
Ta'ū
Pacific Ocean
Swains Island
Fale Ana Point
Lake Namo
1 Mile
1 Km
Pacific Ocean
Rose Island
Sand I.
Rose I.
1 Mile
1 Km

Population

American Samoa has a population of about 47,000, approximately 95 percent of whom live on the island of Tutuila. The population is young, with over a third being under 19 years of age. More than 90 percent of American Samoa's residents are ethnically Samoan, including about 10,000 Samoans of Western Samoan nationality. The balance of the population is made up of Caucasians, Tongans, and other groups.

The territory's population grew by more than 44 percent between 1980 and 1990. American Samoan officials attribute some of this growth to immigrants from Western Samoa, Korea, and other Pacific countries. The large population increase has placed a growing burden on government services. For example, American Samoan officials estimated that about 50 percent of the babies delivered by the hospital are to Western Samoans. In addition, public school enrollment increased by 26 percent between 1982 and 1990.

Social and Governmental Structure

American Samoan society reflects both traditional values and Western influences. The traditional Samoan social structure is built around extended families, or aiga, consisting of groups of people related by blood, marriage, or adoption. Family members acknowledge allegiance to the island leadership hierarchy comprised of family leaders, or matai. Matai are responsible for the welfare of their respective aiga and play a central role in protecting and allocating family lands. Many of the territory's senior government officials are also high-ranking matai.

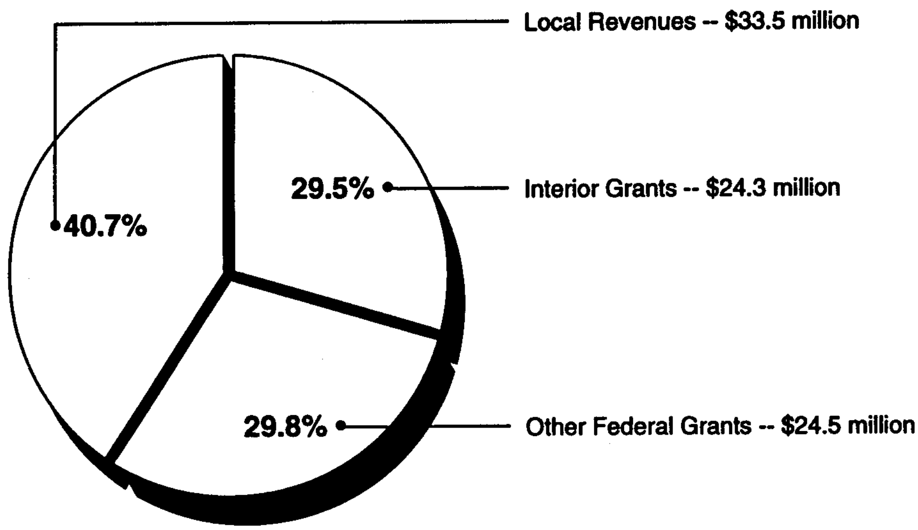
American Samoa's modern government is a constitutional democracy with executive, legislative, and judicial branches. The executive branch consists of 24 offices and departments providing services such as public safety, public works, education, and health. The executive branch is headed by a governor popularly elected to a 4-year term. The legislature, or Fono, is comprised of 18 senators and 20 representatives. Senators are chosen by 12 local councils in accordance with Samoan custom and serve 4-year terms. Representatives are elected by popular vote to represent 17 established districts and serve 2-year terms.

Economy

American Samoa has a limited economic base. Agricultural production is limited because of a scarcity of cultivatable land, and tourism is impaired by American Samoa's remote location and lack of tourist-rated facilities. Two tuna canneries represent the only major industry in the territory and employ almost 32 percent of the work force. The canneries account for 51 percent of the territory's imports and virtually all of its exports. The secondary economy consists of retail establishments and service businesses. There are approximately 1,500 businesses in American Samoa.

The public sector accounts for a large share of the territory's economic activity, and the government comprises about 38 percent of the employed labor force. Because of limited local revenues, American Samoa is highly dependent on federal assistance. Federal grants currently account for more than 60 percent of the American Samoa government's revenues. (See fig. 1.2.) In fiscal year 1989, the territory received about $52 million in federal grants. This represents $1,366 per capita.

Figure 1.2: Sources of Governmental Revenues, Average 1986-1990



Note: Values used for local revenues do not include insurance claims. Values used for other federal grants do not include grants from the Federal Emergency Management Agency for hurricane recovery.

U.S. Administration

U.S. authority over most of the islands comprising American Samoa was formalized in an 1899 tripartite agreement between Great Britain, Germany, and the United States.[2] However, the subsequent deeds of cession negotiated with Samoan chiefs established the key provisions for the United States to promote the peace and welfare of the Samoan people; establish good and sound government; and preserve the rights, property, and cultural values of the society. On February 19, 1900, pursuant to an executive order, the islands were placed under the control of the Department of the Navy, which established a naval station under the leadership of a commanding officer. The commanding officer served as governor and held all authority—legislative, executive, and judicial—in American Samoa.

On June 29, 1951, Executive Order 10264 transferred the administrative responsibility for the territory to the Secretary of the Interior. Under the administration of Interior, American Samoa has progressed toward greater self-government. In August 1951, the Secretary of the Interior vested executive authority of the territory in an appointed Governor under the supervision and direction of the Secretary. In 1960, the Secretary approved the territory's first constitution. A revised constitution, approved by the Secretary in 1967, expanded the size of the Fono, and granted it power to pass legislation consonant with federal laws applicable in American Samoa. The governor has the authority to veto legislative bills. However, vetoed bills that are overridden by the Fono and not subsequently approved by the governor are referred to the Secretary for final resolution.

In 1977, Interior approved changes to the constitution to provide for the election of a Governor and a Lieutenant Governor while preserving direct financial supervision by establishing the Office of the Government Comptroller in the Office of the Secretary.[3] This office was abolished in 1982, and some of its functions were transferred to Interior's Office of the Inspector General.

Today, with the exception of the justices of the High Court, all of the individuals serving in the American Samoa government are elected or appointed by local authority.

[2]U.S. sovereignty was extended over Swains Island in March 1925.

[3]In 1983, Congress passed legislation limiting the authority of the Secretary of the Interior to approve changes to the constitution of American Samoa. As a result, amendments of or modifications to the constitution may be made only by an act of Congress.

Objectives, Scope, and Methodology

This report responds to a request by the Chairman of the Subcommittee on Insular and International Affairs, House Committee on Interior and Insular Affairs, that we review American Samoa's financial practices and the Department of the Interior's oversight of budgetary assistance provided to the territory in light of the growing deficits in the territory's General Fund, which is the primary operating fund. Specifically, our objectives were to

- assess the financial conditions during the past decade leading to the current deficit spending (discussed in ch. 2);
- evaluate the impact of local revenues on American Samoa's financial condition (discussed in ch. 3);
- examine financial management practices for selected high-cost areas such as off-island health care, personnel practices, and procurement (discussed in ch. 4); and
- determine whether Interior has exercised adequate oversight in providing federal assistance (discussed in ch. 5).

We reviewed files and interviewed officials at the Department of the Interior's Office of Territorial and International Affairs and Office of the Inspector General. We reviewed correspondence and files related to Interior's general administrative and oversight functions and technical assistance and capital improvement grants. We also reviewed Interior's field representative reports, prior audit reports by Interior's Inspector General, and American Samoa's financial reports.

In Seattle, Washington, we met with representatives of the accounting firm Deloitte and Touche, which has audited American Samoa's financial statements the past several years. We reviewed workpapers relating to their most recent work in American Samoa.

We conducted fieldwork in American Samoa from May 16 to June 27, 1991. In American Samoa, we met with officials of major governmental offices and departments, legislators, and business people. We reviewed laws, regulations, and procedures governing financial management—particularly those relating to taxation, personnel, procurement, and off-island health care. We reviewed files and performed limited tests in these areas. We focused our efforts on American Samoa's General Fund because, as the government's primary operating fund, it is the focal point for the U.S. operating assistance that is provided and for the deficit spending that has occurred. We reviewed procedures and records for accounting of federal grant funds. We did not conduct a financial audit of federal funds provided to American Samoa.

We conducted our review from March through October 1991 in accordance with generally accepted government auditing standards. The Department of the Interior and the American Samoa government provided written comments on a draft of this report. We have included their comments where appropriate, and the full text of their comments are reprinted in appendixes I and II.

American Samoa's Financial Instability

The government of American Samoa has operated at a deficit in its General Fund for all but 2 fiscal years since 1980,[1] and the territory's financial situation deteriorated rapidly in the second half of the decade. Between fiscal years 1980 and 1990, the General Fund budget, which accounted for about half of the total fiscal year 1990 budget, grew from $31.8 million to $56.9 million. In the early 1980s, transfers from the General Fund to other government operating funds accounted for annual deficits that totaled almost $5 million by fiscal year 1983. Use of supplemental appropriations and favorable corporate tax settlements put the territory in a strong financial position in the middle of the decade. But starting in fiscal year 1986, expenditures exceeded income in the General Fund, and the government began to experience cash flow problems. To make up for these shortfalls, money was transferred from other operating funds into the General Fund. As the cumulative deficit increased from about $500,000 in fiscal year 1987 to $17.6 million in fiscal year 1990, the government accelerated the transfer of funds from other accounts. In fiscal year 1991, the deficit continued to grow, and the government borrowed $5 million from the employee pension fund to temporarily relieve its cash flow problems.

American Samoa developed financial recovery plans in fiscal years 1988 and 1990 to control spending and reduce its growing deficit. These plans were only partially implemented, however, and had little effect on the government's financial condition.

General Fund Is Territory's Primary Operating Fund

American Samoa's annual budget is compiled from budgets generated by individual departments within a budget ceiling established by the Budget Office. The Budget Office has final authority on disputed budget items, although there is an appeals process for departments whose budget requests are turned down. After the Budget Office approves the budget, it is presented to the governor for signature. Once signed by the governor, the budget is presented to the Fono in September of each year for review, modification, and approval.

For the purpose of financial reporting and spending activities, the territory's resources are allocated and accounted for in seven major funds or groups of funds. The General Fund, which in fiscal year 1991 accounted for approximately 50 percent of the government's expenditures, is used to finance government operations, health services, education, public works,

[1]American Samoa's fiscal year runs from October 1 through September 30.

and other basic services. The other major funds or groups of funds are the Special Revenue Fund, Capital Projects Fund, Debt Service Fund, Enterprise Funds, Internal Service Fund, and Trust and Agency Fund. In addition, the government has several trust funds, such as the Employees' Retirement Fund, in which certain programs are financed from dedicated revenues.

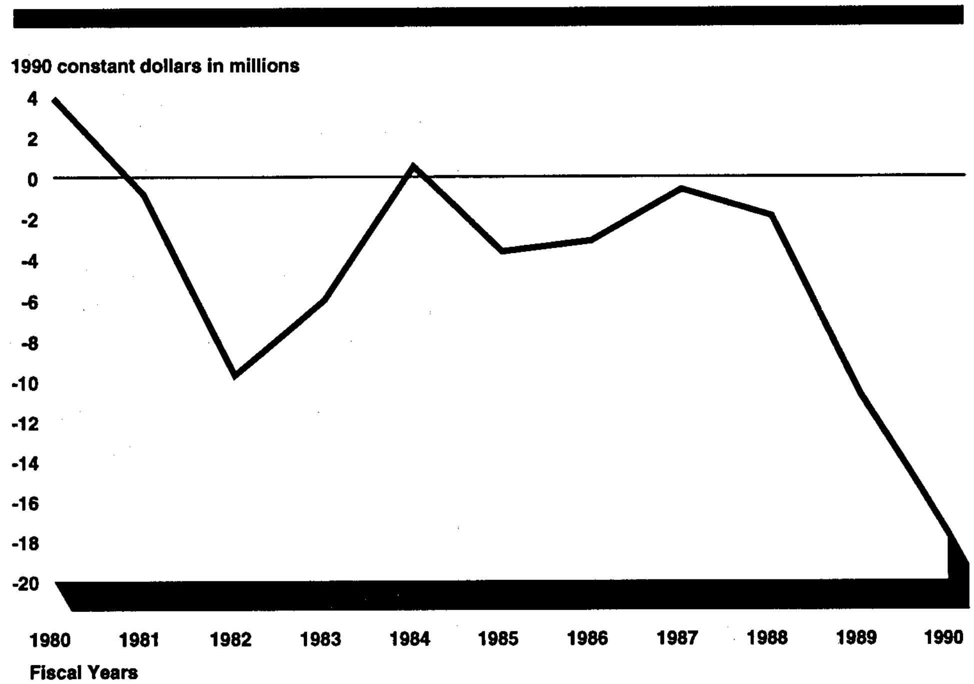
American Samoa has significantly improved its financial reporting since 1978, when its first elected governor took office. The territory has published annual financial statements for all funds since 1980, and the first audited statement was in 1983. The audited financial statements for 1983 through 1987 were so poor, however, that they either received adverse audit opinions or no opinions at all. In contrast, for fiscal years 1988 to 1990, the financial statements received opinions with only one qualification.[2]

Deficits in Early 1980s Prompted Federal Bailout

American Samoa went through a financial crisis in the early 1980s that culminated in a bailout from the federal government. As shown in figure 2.1, the General Fund ended fiscal year 1980 with a positive balance in unreserved funds but operated at a deficit (a negative balance of unreserved funds) for fiscal years 1981, 1982, and 1983.

[2]The independent auditor's reports for these years stated that because of inadequate accounting records, the audit of the general purpose financial statements did not include the financial activities of the general fixed assets group of accounts.

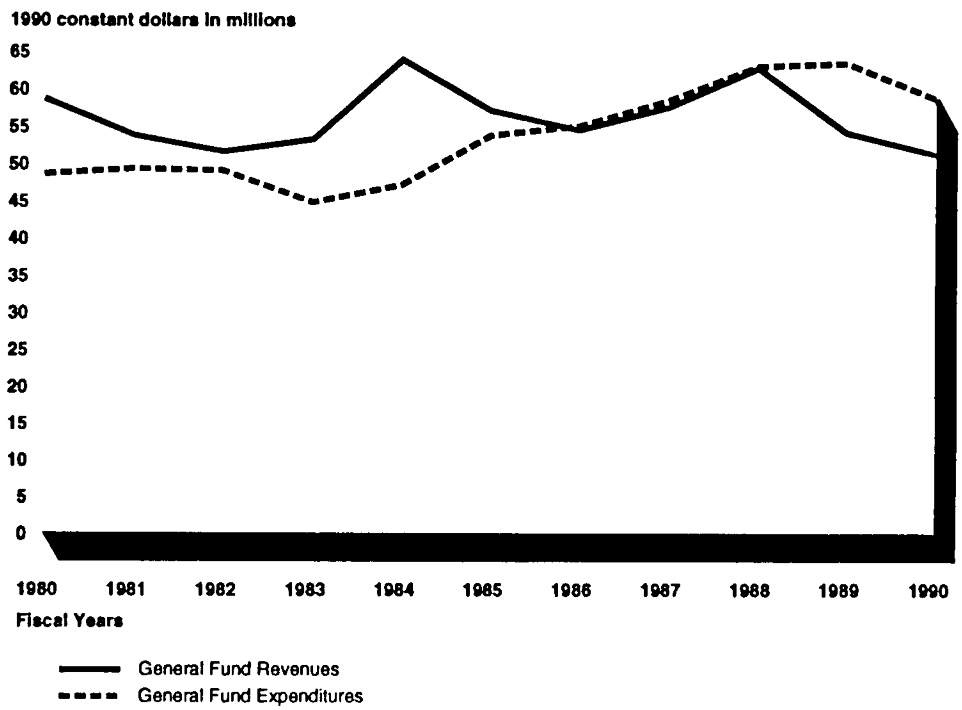
Figure 2.1: Cumulative General Fund Deficit (Fiscal Years 1980 to 1990)



Note: American Samoa reported a deficit in its General Fund of $2.6 million in fiscal year 1984, along with a $2.9 million reserve in an equity account called the Economic Stabilization and Emergency Fund. Since 1986, American Samoa's audited financial statements have stated that it is incorrect to show a reserve account such as this and at the same time report a deficit. Therefore, the unreserved fund balances shown for fiscal years 1982, 1983, and 1984 are net amounts, taking into consideration the amounts shown in the Economic Stabilization and Emergency Fund. This fund was depleted in fiscal year 1985.

This initial financial crisis did not result from government spending in excess of revenues—the common cause of budget deficits. Rather, the deficit resulted from transfers to other government funds experiencing shortfalls. In fiscal year 1981, for example, General Fund revenues exceeded expenditures by about $3.2 million; however, almost all of the excess cash reserves were transferred to other government funds experiencing shortfalls. (See fig. 2.2.)

Figure 2.2: General Fund Revenues and Expenditures (Fiscal Years 1980 to 1990)



Note: Revenues include both local and federal sources.

In the fiscal year 1983 Supplemental Appropriations Act, Congress allocated about $7.2 million to help alleviate American Samoa's deficit. The additional appropriation also offset a decrease of about $6.5 million in tax revenues for fiscal year 1983.

In addition to the supplemental appropriation, an $11 million corporate tax settlement in 1984 helped American Samoa recover from the early financial crisis.[3] The influx of cash allowed American Samoa to

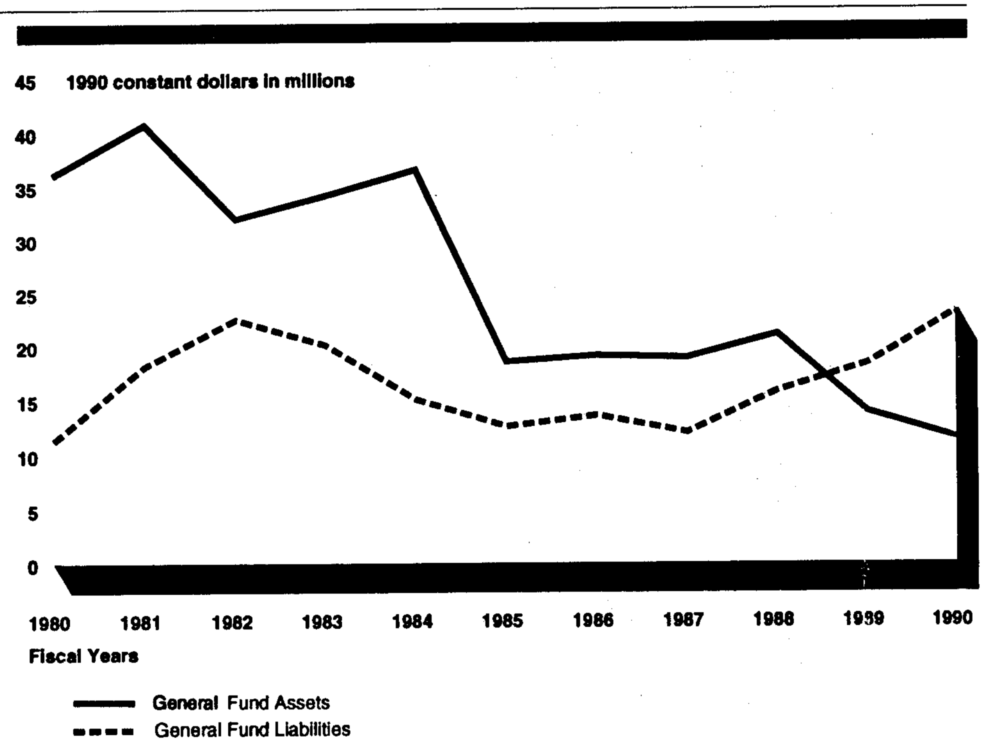
- eliminate the deficit in the General Fund and report a surplus unreserved fund balance in fiscal year 1984;
- continue to transfer money to other government funds without any adverse effect on the General Fund; and

[3]This settlement involved American Samoa's tuna canneries.

- alleviate the cash flow problem that had arisen in fiscal years 1982 and 1983, with the cash flow position shifting from a negative balance of about $7.6 million in fiscal year 1983 to a positive balance of about $3.6 million in fiscal year 1984.

The large influx of cash also allowed American Samoa to increase the General Fund's assets by $5.6 million over fiscal year 1982 to its highest reported value for the decade and to decrease the fund's liabilities by $3.6 million. (See fig. 2.3.) Assets include items such as cash, investments, inventories, property, facilities and equipment, and accounts and notes receivable. Liabilities include such items as bank overdrafts, accounts payable, advances from grantors, and amounts due to other government funds.

Figure 2.3: General Fund Assets and Liabilities (Fiscal Years 1980 to 1990)



Financial Success Ended in Fiscal Year 1985

American Samoa's improved financial position in fiscal year 1984 was short-lived. The General Fund began to operate at a deficit again in fiscal year 1985 as money was transferred to other government funds. Fiscal year 1985 General Fund revenues exceeded expenditures by about $2.8 million, but American Samoa transferred $13.5 million to other government funds. For example, $7.8 million was transferred to the Enterprise Funds for operating capital and to complete a dry dock.

In addition, all $2.9 million that had been deposited into the Economic Stabilization and Emergency Fund, a reserve fund, was reprogrammed to fund various capital improvement projects. The Fono in 1982 authorized the earmarking of excess local revenues for the reserve fund, which was intended to soften the impact of revenue shortfalls, and a private consultant in 1984 recommended that American Samoa deposit any excess corporate tax revenues into the reserve fund. However, the fund was depleted in fiscal year 1985 despite the fact that corporate tax and General Fund revenues exceeded estimates by about $1.9 million and about $5.6 million, respectively. America Samoa never replenished the fund and consequently had no reserves to draw on to soften the impact of a large revenue shortfall in fiscal year 1990.

Primarily as a result of transfers from the General Fund, assets decreased 48 percent from fiscal year 1984 to fiscal year 1985, liabilities decreased by about 14 percent, and the unreserved fund balance decreased from a surplus of about $400,000 at the end of fiscal year 1984 to a deficit of approximately $3.1 million by the end of fiscal year 1985.

Financial Position Deteriorated Between Fiscal Years 1986 and 1990

In fiscal year 1986, General Fund expenditures exceeded revenues for the first time since fiscal year 1980, a trend that continued and accelerated throughout the remainder of the decade. (See fig. 2.2.) At the same time, General Fund cash reserves were depleted, and the government began to transfer money from other government funds, another trend that continued and accelerated.

During fiscal years 1986 to 1988, General Fund expenditures exceeded revenues by about $1.5 million, an amount more than offset by a net transfer of about $2.5 million from other government funds over the same period. The nearly $1 million excess that was transferred from other government funds served to reduce the deficit.

The General Fund's financial position deteriorated rapidly during fiscal years 1989 and 1990, when expenditures far exceeded revenues. For example, in fiscal year 1989, unbudgeted government pay raises approved by the prior administration and unbudgeted personnel reclassifications and hiring by the incoming administration resulted in budget overruns of about $4.7 million. The financial position was also weakened by a steep drop in tax revenues and the depletion of General Fund reserves that had occurred in prior years.

By the end of fiscal year 1990, the cumulative deficit had grown to about $17.6 million, expenditures had exceeded revenues by about $7.3 million annually, assets had dropped 41 percent and liabilities had risen approximately 59 percent from fiscal year 1988, and the General Fund owed other government funds $16.7 million.

Territory Experiences Financial Crisis in Fiscal Year 1991

The pattern of deficit spending for the General Fund that started in fiscal year 1986 continued into fiscal year 1991. As of May 31, 1991, the deficit for fiscal year 1991 was about $4.4 million and was projected to reach $6.5 million by the end of the fiscal year.

The financial condition of American Samoa had deteriorated to the point where the government was having difficulty meeting payroll and was not paying some vendors. An official in the Department of the Treasury told us in May 1991 that the Treasury was withholding nearly $2.8 million in payments to vendors and for other vouchered expenses because the government had no cash to meet these obligations. We also obtained documentation showing that the government had overdrawn its checking account by about $1.6 million as of May 28, 1991. The government attempted to cut expenditures by temporarily placing government employees on a 36-hour work week.

To finance part of its payroll during the latter part of fiscal year 1991 and alleviate its cash flow problems, the government borrowed $5 million from the Employees' Retirement Fund. This was the first time American Samoa had borrowed from this trust fund. The loan will be repaid by the Communications Fund—American Samoa's only enterprise fund to earn a

profit in fiscal year 1990—at 8 percent annual interest over a 10-year period. A cash infusion of $1.45 million in back taxes also helped relieve the territory's cash flow crisis.[4]

Financial Recovery Plans Not Fully Implemented

To address its deteriorating financial condition, American Samoa developed financial recovery plans in fiscal years 1988 and 1990. Interior's Inspector General found that American Samoa did not implement some of the key elements of the 1988 plan. (See ch. 5.). We found that much of the 1990 plan was not implemented as well. Consequently, these plans were not effective in reducing the General Fund deficit.

On October 1, 1989, the Governor of American Samoa issued a plan outlining specific cost containment and revenue enhancement measures. Some of these measures required legislation, and others were contained in an executive order issued by the Governor. The plan identified total potential cost savings of $15.6 million and total additional revenue of $6.5 million. Table 2.1 shows the action taken on the cost containment and revenue enhancement measures for which savings or revenues were estimated.

[4]Under the Tax Reform Act of 1986, the federal government must transfer taxes collected from bona fide American Samoan residents in the U.S. armed forces who are stationed outside American Samoa to the American Samoa government. The $1.45 million covered the taxes and interest due American Samoa for the years 1987 through 1990.

Table 2.1: Implementation of Cost Containment and Revenue Enhancement Measures (as of August 1991)

Measure	Action taken
Cost containment	
Set aside 10 percent of the budget	Implemented but offset by budget overruns in 17 departments and programs
Reduce government inventories by 50 percent	Not implemented
Defer contribution to government employees retirement fund	Not implemented
Shift cost of street lights to Power Authority	Implemented
Implement job reclassification plan	Implemented only for teachers and resulted in no savings
Eliminate fiscal year 1990 salary increments	Implemented
Eliminate 400 jobs through attrition	Not implemented
Delete compensatory time from personnel system	Implemented
Revenue enhancement	
Improve tax collection procedures	Implemented
Levy 3 percent excise tax on imports	Implemented at a rate of 5 percent
Increase terminal fee on petroleum products from 1 cent to 3 cents	Implemented
Levy $5,000 annual tax on poker machines	Implemented at a lower rate of $500 per machine.
Increase tax on beer, liquor, cigarettes, and firearms	Implemented
Limit authority of Tax Exemption Board to waive taxes on certain items	Not Implemented

American Samoa did not implement three of the eight cost containment measures. Two additional measures were implemented or partially implemented but resulted in little or no cost savings. For example, although the government instituted a 10-percent budget set-aside, budget overruns in some departments and programs offset the resulting savings. In another case, a job reclassification plan for the executive branch of the government was implemented only for teachers. American Samoa's Director of Human Resources estimated that two-thirds of the teachers were given raises and stated that none were given a pay cut. Consequently, this measure resulted in additional costs. As a last resort, the government instituted a 36-hour work week for its employees on January 15, 1990, but this action lasted only 2 pay periods because a hurricane struck the territory on February 2, 1990. In April 1991, the government again instituted a 36-hour work week, this time for about 6 weeks.

American Samoa implemented 5 of the 6 revenue enhancement measures. For example, American Samoa's Tax Office made several staffing and procedural improvements in fiscal year 1991 and expected to increase collections over fiscal year 1990 levels. The excise tax was not implemented until October 1990 and has not generated as much revenue as originally anticipated. Similarly, the tax on poker machines was set at

$500 rather than $5,000 and therefore will generate only a tenth of the estimated revenue.

Conclusions

American Samoa's financial condition deteriorated during the 1980s, especially in the second half of the decade. When expenditures from the General Fund surpassed revenues in fiscal year 1986, it began a trend of deficit spending that is likely to continue unless expenditures are reduced, revenues are increased, or both. American Samoa attempted to address its deficit by developing two financial recovery plans. However, these measures were not effective because they were not fully implemented.

Agency Comments and Our Evaluation

The American Samoa government commented that numerous factors contributed to the deficit. It stated that the deficit is an accumulation of past policies and programs and that other external (oil price increases) and natural (droughts) events, mostly beyond the control of the government, have contributed to revenue shortfalls and the deficit. The government further stated that many of the cost containment and revenue enhancement measures in the financial recovery plans were never implemented because necessary legislation was not enacted.

We recognize that external and natural events such as those noted by the government contributed to the deficit and the government's financial burden. We believe, however, that this is even more reason to strengthen internal controls and improve financial management practices, especially in areas pertaining to revenue collection and regulation and control of expenditures that are discussed in this report. The Department of the Interior commented that it had offered to establish a team of federal and nongovernment experts to help American Samoa develop a comprehensive plan to improve its financial position, but that American Samoa did not respond to its offer.

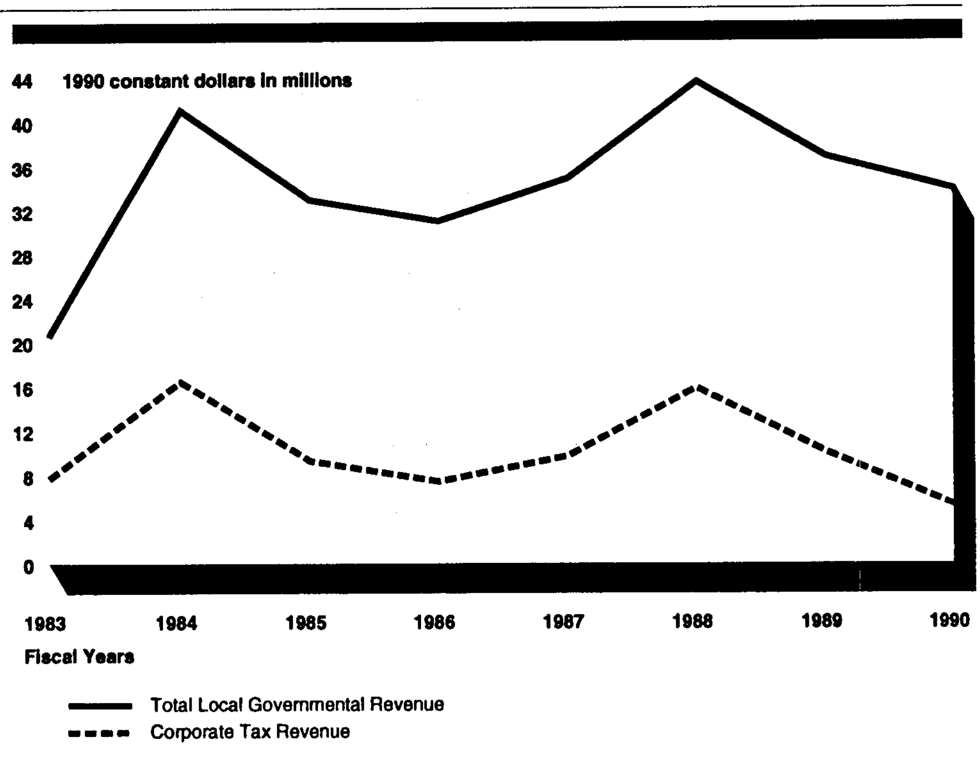
Issues Affecting Local Revenue Collections

American Samoa's governmental revenue from local sources grew substantially between fiscal years 1980 and 1990. Expressed in constant 1990 dollars, average annual revenue grew from $30.8 million in fiscal years 1981 through 1985 to $36.1 million in fiscal years 1986 through 1990—an increase of 17 percent.[1] This growth in revenue, however, has been erratic, primarily because of wide fluctuations in corporate income taxes. American Samoa has experienced problems projecting corporate, sales, and excise tax revenues and ensuring that all income taxes from individuals and businesses are collected.

Corporate Tax Revenues Are Erratic and Difficult to Predict

Corporate income tax has generally been American Samoa's largest single source of local revenue. However, these revenues have fluctuated greatly from year to year and account for much of the variation in the territory's total revenues. (See fig. 3.1.)

Figure 3.1: Local Governmental Revenue and Corporate Tax Revenue (Fiscal Years 1983 to 1990)



[1]Due to the territory's high population growth, average revenue per capita (in constant 1990 dollars) increased only 3.8 percent, from $898 in fiscal years 1981 through 1985 to $932 in fiscal years 1986 through 1990.

A 1984 revenue forecasting study by a private consultant concluded that between fiscal years 1971 and 1983 American Samoa's corporate tax revenues were extremely difficult, and perhaps impossible, to reliably predict using statistical methods and were likely to remain highly volatile. We found that these revenues have continued to be erratic since 1984 and that future revenues were difficult to predict accurately from prior-year data. The consultant study indicated that most of the territory's corporate tax revenues come from a small number of firms and therefore that changes in their tax liability—for reasons including market fluctuations, production interruptions, and corporate reorganizations—can result in large variations in tax revenue. The consultant recommended that American Samoa (1) do studies of each of its major corporate taxpayers as a basis for projecting tax revenues and (2) deposit any corporate tax revenues in excess of estimated amounts into the economic stabilization fund to build a reserve to offset revenue shortfalls. Although from an accounting standpoint it is improper to record a reserve while a deficit exists, once the deficit is eliminated, such a reserve would appear to be practicable.

American Samoa's corporate tax revenue estimates have been inaccurate in recent years. For example, actual fiscal year 1988 revenues exceeded final budget estimates by over $9.6 million. This difference was due, in part, to an unexpected $5 million capital gains tax windfall resulting from the sale of one of American Samoa's tuna canneries to a foreign investor. American Samoa's fiscal year 1990 budget projected that corporate tax revenues would be $12.2 million, but actual revenues were only $5.3 million. This shortfall contributed substantially to the government's $7.4 million General Fund deficit for that year. American Samoa Treasury officials told us in May 1991 that they were expecting another corporate tax revenue shortfall in fiscal year 1991. Treasury officials told us that they rely on various indicators, including historical trends and direct interaction with the corporations, to estimate corporate revenues, but they could not provide documentation on their process.

Cannery Revenues

American Samoa's two tuna canneries, subsidiary operations of two U.S. firms, have historically accounted for about half of the territory's corporate tax revenues. However, they have not provided the territory a stable, predictable revenue stream. In part, this is because the canneries have sometimes gone for long periods without paying any taxes, with their tax liability eventually being determined by audits performed by the American

Samoa government and the U.S. Internal Revenue Service. As a result of these audits, American Samoa received several multimillion-dollar tax settlements, but the amount and timing of such settlements were difficult to predict.

These audits have primarily concerned disputes over foreign tax credits and the amount of profit the parent corporations attributed to operations on the U.S. mainland versus those in American Samoa. At the time of our review, the American Samoa government was negotiating with the parent firms of both canneries over these and other tax issues.

Impact of Changes in Federal Tax Code

Changes in the federal tax code may also affect American Samoa's corporate tax revenue projections. The territory's tax code essentially mirrors that of the federal government. Consequently, changes in the federal tax code impact the territory unless American Samoa enacts legislation rejecting or amending the changes. The Governor of American Samoa attributed some of the recent shortfall between estimated and actual corporate tax revenues to the substantial reduction of corporate tax rates. The Governor told us that he has requested technical assistance from Interior in regard to separating American Samoa's tax code from the federal code.

Sales and Excise Taxes Fell Short of Projections

In January 1989, the Governor of American Samoa suspended enforcement of the territory's 2-percent sales tax for 120 days before an alternative revenue-producing measure was legislated by the Fono to replace the lost revenue. As a result, sales tax revenues for that year were only about $1.3 million—$706,000 below what had originally been projected. According to the Governor, he suspended enforcement of the tax because it was difficult to collect from businesses that did not have the ability to maintain adequate tax records. He also indicated that the government had collected only 40 to 50 percent of sales taxes in the past. However, we noted that the sales tax, which was reinstated in May 1989, generated nearly $2.3 million in local fiscal year 1990 revenue.

In October 1990, the Governor approved an excise tax bill to replace the sales tax. The measure imposed a 5-percent excise tax on imported items for commercial resale and specified that 2 percent of the tax would be temporary and earmarked for school repairs and hurricane relief matching funds. American Samoa's Treasury Department had originally estimated that the tax would generate $5 million in revenues in fiscal year 1991 in

anticipation that it would be imposed on all items for commercial use. However, because the tax applied only to items for commercial resale, collections midway through the year were well below what was anticipated, and the Treasury Department's Customs Division subsequently revised the estimate down to $3.1 million. The American Samoa government had to revise its fiscal year 1991 budget, in part, because of this shortfall.

Problems Affecting Income Tax Collection

Several factors have adversely affected American Samoa's collection of income tax revenue. American Samoa's Tax Office has not adequately ensured that individuals and businesses are paying taxes on miscellaneous income. In some cases, proper tax identification numbers or social security numbers had not been assigned. Also, the Tax Office has a substantial backlog of collection cases and tax returns that had not been assigned to collection agents and tax auditors. In addition, political favoritism sometimes impedes tax collection efforts.

All Taxes on Miscellaneous Income Are Not Being Collected

American Samoa's Tax Office has not ensured that individuals and businesses are filing tax returns and reporting all miscellaneous income. Interior's Inspector General estimated that in fiscal year 1987 the territorial government lost $1.9 million in potential tax revenue, or 6.3 percent of local General Fund revenues, because the Tax Office did not match tax statements for miscellaneous income with available returns,[2] and we found this continues to be a serious problem. The matching process is intended to ensure that all individuals and businesses earning income are filing returns and that the returns filed report the correct amount of taxable income.

Some tax statements prepared by American Samoa's Treasury Department did not contain proper tax identification or social security numbers. According to a Tax Office official, part of the problem is that many taxpayers do not have social security numbers, as required by law. Because the Tax Office uses these numbers to match tax statements to tax forms, this deficiency makes the matching process more difficult.

Tax Office officials told us that they would like to have the capability to automatically match tax statement and tax return information using their computer system, which was installed by an Interior Department technical

[2]The Tax Office receives tax statements directly from employers providing information on the amount of income earned by individuals and businesses.

expert in early 1991. This capability would speed the matching process, which is time-consuming when done manually. At the time of our review, however, the system was serving only as a data base for 1989 and 1990 return information and was not capable of performing automatic matching.

In October 1990, the Tax Office assigned an individual to check incoming tax statements against filed returns. We believe that this is a positive step that could result in substantial additional tax revenue, provided that proper identification numbers are used on tax statements and instances of non-filing and unreported income are vigorously pursued. We believe another way to help alleviate the problem of collecting taxes on miscellaneous income would be to withhold taxes at the source, something that currently is not being done.

Backlog of Collection and Audit Cases

Heavy work loads have resulted in unassigned tax collection cases and unaudited returns. For example, as of March 20, 1991, the collections branch of the Tax Office had a backlog of 218 collection cases over 60 days old that had not been assigned to revenue collection officers. Further, as of June 1991, there were 701 open collection cases for which no money had been collected within the last 5 months.

According to the Tax Office's Chief of Collection, revenue officer caseloads are excessive. Statistics provided by the Tax Office show that there were 1,244 collection cases assigned to six revenue officers, an average of 207 taxpayers each at the time of our review. To help increase collections, the Tax Office hired two revenue officers in October 1990 after operating with only four for most of fiscal year 1990. Tax Office records showed that collections by revenue officers for the first 7 months of fiscal year 1991 totalled over $3 million, as compared with about $1.9 million collected for all of fiscal year 1990.

The audit branch of the Tax Office experienced similar work load problems. The Chief of Audit told us that he had a backlog of approximately 2,500 returns that had been selected for audit but had not been assigned because of staffing limitations. He estimated that the statute of limitations had probably expired in half these cases. Between October 1990 and May 1991, the Tax Office's audit branch had recovered over $2.2 million in additional taxes based on 302 completed audits.

Although both the Chief of Audit and Chief of Collection indicated that they needed more staff, they had not determined the staffing requirements for conducting tax audits and collecting taxes in a timely manner.

Political Favoritism Has Impeded Collection Efforts

In 1988, a U.S. Internal Revenue Service official who conducted training in American Samoa's Tax Office noted in a status report that political interference and favoritism impeded the collection of taxes. During the course of our review, some cognizant American Samoa government officials told us that this problem continues. We found in one case that a senior government official owed $42,894 in back taxes, according to a 1989 assessment, but that no attempt had been made to collect this amount. Another senior government official owed $34,576, according to assessments conducted between 1982 and 1984. Although collection efforts had been exhausted, the case was still "pending referral" to the Attorney General's office at the time of our review.

Conclusions

The territorial government's revenues from local sources have fluctuated greatly from year to year and have frequently varied from anticipated levels. The government's estimates of corporate tax revenues in particular have been highly inaccurate because of the unpredictability of the corporate revenues, and excise and sales taxes have not generated expected revenues as well. We believe that corporate and/or other revenues that are excess to budget estimates should be applied towards elimination of the budget deficit. Thereafter, they should be deposited into a reserve for the purpose of offsetting future revenue shortfalls.

In addition, the territorial government has not ensured that individuals and businesses are paying taxes on all their income; consequently, the government is losing local revenues while operating with a General Fund deficit. The Tax Office has taken some cost-effective steps to resolve this problem by hiring additional personnel to match tax statements against tax returns and to collect revenue owed the government. We believe that hiring additional personnel to collect tax revenue and audit tax returns in a timely manner could be cost-effective. In addition, the government could facilitate tax collections by ensuring the proper identification numbers are used on tax statements.

Recommendations

We recommend that the Secretary of the Interior make greater use of existing authority to withhold disbursement of operating funds as a means of ensuring that the American Samoa government strengthens its revenue collection procedures. Specifically, the Governor of American Samoa needs to (1) apply revenues in excess of budget estimates towards reducing and eliminating the General Fund deficit and thereafter build up a reserve to accommodate any future revenue shortfalls, (2) aggressively collect all delinquent income taxes owed the government and consider withholding taxes at the source as a means of collecting tax on miscellaneous income, (3) ensure that proper tax identification numbers are used on tax statements, and (4) determine the personnel needs of the collection and audit branches in the Tax Office and provide any additional resources that are needed. In making this determination, the Governor should have reasonable assurance that the costs of adding personnel do not exceed the benefits of additional tax collection and audit efforts.

Agency Comments and Our Evaluation

The American Samoa government agreed with our recommendations. It said that any excess revenues would be applied towards deficit reduction and then to reserves for future contingencies and that more emphasis would be placed on collection of delinquent taxes, although this would require additional revenue officers. The government stated, however, that it is difficult to attract and retain qualified revenue officers under the present salary structure. The government also noted that during the tax filing season (January 1 through April 15) the Tax Office uses revenue officers to prepare tax returns for the public, thereby reducing or suspending tax collection efforts during the period.

The government stated that it is at a disadvantage in collecting taxes, particularly from the major corporations, because the American Samoa tax system mirrors the federal tax code, which is not fully compatible with the local situation. According to the government, it requested technical assistance funds from Interior to revise the tax laws to fit the local economy and to work towards decoupling from the federal tax code, but the request was turned down. The government believes that once this issue and the personnel issues are addressed, the tax collection problems will be resolved.

The Department of the Interior commented that it had recently paid for a team of experts from the Internal Revenue Service to evaluate the American Samoa tax system. According to Interior, the team's report included proposals by the Internal Revenue Service to (1) help American

Samoa automate tax return information and document processing and (2) provide a continuous training program for Tax Office collection and audit personnel. Interior stated that American Samoa had not yet responded to the offer. The American Samoa government commented that it plans to discuss funding of these proposals with the Department of the Interior.

We agree that the American Samoan government faces certain constraints in hiring the number of qualified revenue officers it would like to have; however, these constraints are similar to those faced by all governments. The problem in American Samoa is that the government has not ranked the work of revenue officers in priority order, and instead of pursuing tax collection cases, it has used revenue officers to help individuals prepare tax returns. Additionally, we believe that the Tax Office could benefit from the assistance proposed by the Internal Revenue Service, especially in the area of training for its tax collection and audit personnel. However, even if the personnel and tax system issues are resolved, the tax collection problems will likely continue unless the government strictly enforces its tax requirements and regulations.

Efforts to Control Expenditures Have Been Inadequate

American Samoa's internal controls did not provide reasonable assurance that regulations and procedures for managing program expenditures were followed. We found that the territorial government did not adequately control spending in such high-cost areas as the Department of Health's off-island patient referral program, resulting in substantial cost overruns. In fiscal year 1990, for example, spending by government departments and programs exceeded appropriations by a total of $4.5 million. Although American Samoa has a law prohibiting expenditures in excess of budget appropriations, this law has not been enforced. In addition, the government's efforts to contain personnel and procurement costs, as well as to enforce regulations and procedures in these areas, were insufficient.

Off-Island Medical Care Was Primary Cause of Health Department's Overruns

Between fiscal years 1987 and 1990, the amount by which American Samoa's Department of Health overspent its budget increased at a rapid pace, almost doubling from year to year (see table 4.1).

Table 4.1: Annual Expenditures in American Samoa Department of Health

Dollars in millions

Fiscal year	Budgeted	Expended	Overrun
1987	$9.5	$10.1	$0.6
1988	10.2	11.2	1.1
1989	11.2	13.0	1.8
1990	11.4	14.8	3.4

A major reason for the department's overspending was the use and related cost increase of its off-island health care program. Eligible patients who cannot be treated at American Samoa's LBJ Tropical Medical Center because of lack of equipment or trained physicians are sent off-island for treatment. Escorts, who may be a parent, guardian, or, if necessary, a medical attendant, are generally provided for stretcher patients and for patients under 18 years old. Under this program, American Samoa pays for the transportation of patients and escorts and for medical costs. The number of off-island referrals and escorts have increased substantially since 1989, as shown in table 4.2.

Table 4.2: Off-Island Patient Referrals and Escorts

	Fiscal year		
	1989	**1990**	**1991[a]**
Off-island referrals	284	418	276
Escorts and family	84	99	79
Total	**368**	**517**	**355**

[a]As of May 1991.

Note: Figures may not reflect the numbers of individual patients referred off-island, as some patients may have been referred off-island more than once.

In fiscal year 1990, $1.45 million was budgeted for off-island health care, while $3.61 million was expended. The $2.16 million overrun represented about 64 percent of the Health Department's total overspending in fiscal year 1990. In a June 1991 financial status report, American Samoa's Director for Planning and Budget indicated that the Health Department would overrun its budget for fiscal year 1991 by more than $4.8 million, including an overrun of about $2.2 million in the off-island medical care program.[1]

American Samoa hospital officials said that the budget for off-island health care typically reflects the amount of funding they expect to receive from a federal Medicaid grant. Medicaid funding for American Samoa increased from $750,000 in fiscal year 1982 to $1.45 million in fiscal year 1991. Although the grant remained the same from fiscal years 1990 to 1991, it had previously increased at an average rate of about 8.6 percent per year. A hospital official told us that one reason for overruns in off-island health care is that increases in health care costs have outpaced the growth in the Medicaid grant.

In an effort to reduce costs, American Samoa's hospital board is exploring the possibility of obtaining third-party insurance to cover the government's off-island medical costs. American Samoa has received two proposals; one would insure referrals to health care providers in Hawaii, and the other would insure referrals to providers in Australia and New Zealand. Hospital officials indicated that either arrangement could offer cost advantages over the current system.

[1]The report also projected overspending of approximately $800,000 in the pharmacy division and $300,000 in nursing services.

Regulations and Procedures for Off-Island Referrals Program Were Not Followed

We randomly selected 23 of 452 (5 percent) off-island patient referral files with fiscal year 1990 medical expenses and found instances where American Samoa hospital officials bypassed procedures and regulations governing referrals. Although American Samoa's policy specifies Tripler Army Medical Center in Hawaii as the primary off-island care provider, American Samoans were frequently sent to private clinics. Since the early 1970s, Tripler has provided medical services to American Samoa residents as part of an interagency agreement with the Department of the Interior. According to an American Samoa hospital official, patients referred off-island for medical care are generally sent to Tripler unless the medical center cannot provide the required treatment. However, only 4 of the 23 patients in our sample were referred to Tripler, while 15 of the 23 patients were authorized treatment at private clinics, 11 at a clinic in Honolulu.[2] There was no documentation in the files sampled to show that the required treatment was unavailable at the local hospital or at Tripler.

Further, the American Samoa Code requires that patients requesting and receiving treatment at off-island private health facilities pay the difference between actual treatment costs and what it would have cost at Tripler. According to an American Samoa hospital official, the private clinic in Honolulu is almost always more expensive than Tripler. However, none of the patients in our sample were billed for any off-island medical expenses.

In 1985, and again in 1987, American Samoa's Territorial Audit Office reported that patients were being sent to facilities other than Tripler without being required to pay the difference between the rates used by Tripler and the rates charged by the other facilities. The 1985 audit report noted that for one patient the territorial government paid almost $20,000 more to a private clinic than it would have for the same treatment at Tripler. The American Samoa hospital's response to the 1987 report stated that hospital policy was to require individuals to be personally responsible for the differences in cost. However, the hospital's finance officer told us that he was unaware of the policy to charge patients for the difference in the costs and that it had never been done. He said most people could not pay the costs.

We noted, however, that some senior American Samoa government officials were referred to a private clinic for routine physical examinations. In one case, the hospital's off-island authorization letter approved a "complete physical examination" at this clinic. American Samoa's Hospital

[2]The other four patient files in our sample did not contain authorization letters for off-island care.

Director told us that all of the tests could have been performed at Tripler. The off-island patient files did not contain any information explaining the rationale for sending the individuals to a facility other than Tripler.

Other Weak Internal Controls in Off-Island Program

We found several other areas in the off-island referral program where, because of weak or nonexistent internal controls, there was considerable potential for program abuse.

- Off-island referral patients are not required to show proof that off-island medical treatment was obtained, and the off-island patient files reviewed did not always contain evidence of off-island billings. Without this information, we could not determine whether each patient actually received off-island medical treatment. The hospital's finance director acknowledged that some patients may be making the trip to Honolulu on an off-island medical referral without receiving medical treatment.
- Hospital officials estimated that 5 to 10 percent of the off-island referrals are verbally approved by the Hospital Director. This practice violates the American Samoa Code, which requires the hospital's medical referral committee to review each proposed referral and recommend to the director of health approval or disapproval for off-island health care. We were unable to determine actual numbers of verbal approvals because most of the patient files did not contain the referral committee's approval document.
- Two medical referral authorization letters that were in the files sampled, and which the American Samoa government sends to off-island medical centers, authorized "further medical treatment" but did not provide specific descriptions of the types of service and treatment for which American Samoa would be paying. Also, because the off-island patient files reviewed seldom contained an approval document from the medical referral committee, we could not determine whether all patients were appropriately approved for off-island health care by the committee and, if so, for what services.
- Four of the 23 patient files in our sample contained no authorization letters. In one instance, American Samoa paid more than $27,000 for a patient's off-island treatment at Greenwich Hospital, Greenwich, Connecticut. The file for this patient contained a handwritten note, dated about 4 months after the treatment, indicating that the medical bills were justified because the patient's condition could not have been completely treated in American Samoa.

Many of these problems were identified in a 1984 GAO report, Ways to Reduce the Cost of Medical Referral Programs in Micronesia and American Samoa (GAO/NSIAD-84-139, Aug. 9, 1984). For example, we found that off-island referrals were provided without committee review and the government was not giving enough attention to selecting the most cost-effective referral center.

Budget Overruns in Farm Subsidy and Food Voucher Programs

In addition to the projected fiscal year 1991 overrun for the Department of Health, other programs were overrunning their budgets at the time of our review. By May 1991, American Samoa's Farm Subsidy Program had already exceeded its fiscal year 1991 budget of $500,000 by approximately $387,000. The program, administered by the territory's Department of Agriculture, subsidizes 50 percent of the cost of animal feeds, fertilizers, and chemicals in order to stimulate local agricultural production.

From fiscal year 1981 to fiscal year 1985 program expenditures grew from $482,834 to $506,545. By the end of fiscal year 1987, however, total program expenditures more than doubled to over $1 million, and the program overran its budget by 147 percent. The program has also overrun its budget every year since, including 2 years in which the Fono approved supplemental appropriations. (See table 4.3.)

Table 4.3: Budget Overruns in Farm Subsidy Program

Fiscal year	Budget	Supplemental appropriation	Government subsidy[b]	Overrun
1986	$236,617	0	$353,568	$116,951
1987	200,000	0	494,886	294,886
1988	200,000	$100,000	534,896	234,896
1989	300,000	385,000	702,283	17,283
1990	500,000	0	839,320	339,320
1991[a]	500,000	0	887,241	387,241

[a]As of May 1991.

[b]The government subsidy is the difference between the farm program's revenues and expenditures, and the amount budgeted (including supplementals) to cover any shortfall.

American Samoa's Director of Agriculture attributed the overrun in fiscal year 1990 to an increase in the number of farmers and livestock. He also indicated that from fiscal year 1990 to fiscal year 1991, the number of farmers increased from 800 to 1,100 and the number of livestock increased from 28,000 to 32,000.

A second program with cost overruns was the Territorial Administration on Aging's Food Voucher Program for the elderly. At the time of our review, it was projected to overspend its fiscal year 1991 budget by $854,000 because of an unbudgeted increase in the food voucher entitlement. The program, established in 1985, provides food vouchers for senior citizens to use at authorized stores.

The fiscal year 1991 budget for the program was $600,000 based on a monthly entitlement of $25 per person, with an average of 2,200 senior citizens expected to be served each month. The budget was $124,000 less than the $724,000 requested by the Territorial Administration on Aging, an amount that would have provided each recipient with a $30 voucher.

Despite the budget restriction, the Director of the Territorial Administration on Aging raised the food voucher entitlement from $25, the amount budgeted for fiscal year 1991, to $50. Because of the 100-percent increase in the entitlement, the program had spent all of its fiscal year 1991 budget halfway through the fiscal year. Although the program had exceeded its budget by $118,500 in March 1991, it continued to operate, spending an additional $370,300 for April, May, and June.

The Territorial Administration on Aging's activities are funded almost entirely by grants from the U.S. Department of Health and Human Services and the Department of Labor. However, due to the program overrun, legislation was drafted to provide $854,000 in local funds to cover the program's expenditures from March 1991 to the end of the fiscal year. As of July 1991, the funding bill had not been presented to the Fono.

Law Prohibiting Expenditures in Excess of Appropriations Not Enforced

American Samoan departments and programs have regularly overspent their budget even though obligating or spending funds in excess of appropriations is a violation of territory law, which is consistent with the federal Anti-Deficiency Act. Section 10.0601 of the American Samoa Code states that "no officer or employee of the government may make or authorize an expenditure from or create or authorize an obligation in excess of the amount available therein." The law provides further that any government employee who violates this law is subject to disciplinary action, including suspension from duty without pay or removal from office. Government employees who knowingly violate this law can be convicted of a felony.

In 1989, Interior's Inspector General reported "widespread lack of adherence" to the law's requirements. American Samoa's fiscal year 1990 financial statement, reporting that expenditures exceeded appropriations by $4.5 million, states that funds were disbursed and expenditures made "in excess of authorized amounts" and "without proper appropriations."

Despite these apparent violations of the law, no individuals in the government have been held accountable. American Samoa's Attorney General told us that no instances of spending in excess of appropriations had been brought to his attention. Other government officials told us that they could not recall any instance where this law had been enforced.

Personnel Practices Contribute to Rising Costs

American Samoan officials have acknowledged that personnel costs, constituting more than two-thirds of the government's budget, need to be reduced, but their actions have been inconsistent with efforts to contain these costs. Many governmental departments have filled existing vacancies, added unbudgeted positions, and hired individuals on an emergency and temporary basis. As a result, personnel ceilings have been exceeded or circumvented, and personnel costs have increased from $54.7 million in fiscal year 1989 to $59.4 million in fiscal year 1990. In September 1991, the Department of Human Resources reported a total government work force of 4,700 employees, which was projected to cost about $60 million for fiscal year 1991.

Fiscal Year 1990 Personnel Reductions Not Achieved

As part of his fiscal year 1990 cost containment measures, the Governor of American Samoa issued an executive order intended to eliminate 400 government positions expected to become vacant through resignations, retirements, and terminations.[3] However, at the end of fiscal year 1990, American Samoa showed a net increase in the number of employees rather than a reduction. Although terminations, retirement, or death reduced the number of American Samoa's career service employees by 323 in fiscal year 1990, American Samoa added 339 individuals to its employment rolls during this same period. If the government had reduced its work force by 400 positions during fiscal year 1990 as planned, we estimate that the government could have realized a savings of about $3.1 million in fiscal year 1991.

[3]The Governor's order exempted critical positions such as doctors and registered nurses.

Temporary and Emergency Hires Add to Costs and Circumvent Personnel Ceilings

During the first 8 months of fiscal year 1991, the territorial government added a total of 256 additional employees through the use of emergency and temporary appointments.[4] We estimated the total annualized salary and wages of these employees to be about $2 million per year.

Government officials told us that the additional hires were necessitated by the clean-up effort following Hurricane Ofa, which struck American Samoa in February 1990. Government officials also said that, because of the limited job market, the directors of the various departments often find ways to retain personnel even after an emergency has passed.

For example, in January 1991, the Department of Public Works converted 104 individuals who had been originally hired a year earlier as emergency appointments to temporary appointments. This action allowed the 104 employees to continue working for American Samoa on a month-to-month basis until either funds ran out or the employees were successful in obtaining permanent government positions. The Lieutenant Governor, in consultation with the Directors of Human Resources, Public Works, and Program Planning and Budget, approved this personnel action.

The Department of Public Works did not include these 104 temporary appointments in its career service and contract employee rosters. As such, its employee rosters showed a total of 330 employees, which was within its budget ceiling of 331. In retaining the services of additional personnel through temporary appointments, the Department circumvented budgetary limitations.

In fiscal year 1991, American Samoa's Health Department hired 22 additional personnel as emergency appointments. These appointments included a groundskeeper, stock control clerk, painter, and cashier. Officials responsible for the hiring did not provide reasons why these positions were classified as emergencies.

Governor's Office Sets Poor Example

In June 1991, the Acting Governor approved pay raises for four employees of the Governor's office.[5] Raises for two other employees of the office became effective in October 1990. The six pay raises totaled about

[4] This total excludes physicians hired during this period.

[5] Under American Samoa law, the lieutenant governor serves as acting governor when the governor is temporarily disabled or absent.

$23,000. The pay raises were not included in the fiscal year 1991 approved budget, and the Office of Program Planning and Budget did not review this action.

Four of the raises were approved less than a month after the government authorized an emergency $5 million loan from the Employees' Retirement Fund and all six while the Governor's cost containment plan freezing promotions and salary increments of government employees was in effect. The Governor's office stated that the increases were justified, even with the budgetary limitations, because of job reclassification or assignment of additional duties for three of the employees, and in recognition of long government service for two more. No specific justification was given for the sixth employee.

Government Procurement and Contracting Procedures Not Followed

American Samoan officials often ignored and circumvented territory laws, policies, and rules for exercising management control over government procurement and contracting practices. Interior's Inspector General has issued three reports recommending that American Samoa improve its procurement practices, but we found little evidence that these recommendations had been implemented.[6] We identified many instances where competitive bidding was not performed, procurement actions were not properly reviewed, and contract files did not contain required information.

Procurement Policies

The American Samoa Procurement Act of 1983 and American Samoa's Procurement Rules, adopted in 1984, set forth the government's policies for procurement and contracting activities. The purpose of these policies is to ensure that government contracts generally are awarded through competition, procurement actions and contracts are properly reviewed, contract files contain proper documentation, and instances of conflict of interest are avoided. The policies centralized most of the government's procurement and contracting activity under a central Office of Procurement, although the Department of Public Works manages most contracts related to construction projects.

[6]Reports on procurement practices were issued in August 1983 and August 1988. A report on a survey of procurements made by American Samoa was issued in August 1987.

Little Action Taken on Inspector General Recommendations

In a 1988 report on American Samoa's procurement and contracting activities, Interior's Inspector General found poor record-keeping, insufficient competitive bidding, and a lack of effective management oversight. The report estimated that the American Samoa government incurred $456,759 in unnecessary costs because it did not solicit competitive bids for five procurements valued at $1,079,150. To remedy the problems identified, the Inspector General recommended numerous corrective actions. These included

- maintaining complete and accurate records of procurement actions,
- increasing competition by limiting the award of sole source procurements, and
- ensuring that all department directors are aware of their responsibilities to adhere to the procurement policies and to subject persons to disciplinary actions when the rules are violated.

However, we found little evidence that American Samoa had implemented the Inspector General's recommendations. Furthermore, one senior Procurement Office official told us that he had heard of the 1988 Inspector General report but had not actually seen it. Another senior official told us that the problems identified in the report occurred during a previous administration and should not be blamed on the present one.

Competitive Bidding Not Performed

American Samoa's Procurement Rules require the government to maximize competitive procurement actions in satisfying the government's minimum needs. The Procurement Rules stipulate that all government contracts over $10,000, with few exceptions, shall be awarded on the basis of competitive sealed bidding. The rules allow sole source procurements under certain conditions if written justification is provided.

We found that, in the cases sampled, American Samoa's Procurement Office routinely disregarded these requirements. Our review of 39 selected procurement transactions for fiscal years 1990 and 1991, with a total value of about $1.1 million, showed that in 14 of 18 transactions in which the procurement was valued at more than $10,000, the goods or services were obtained through sole source procurement. Written justification for the sole source decision was provided in only five of 14 cases. In three of these five instances, the only documentation provided was a check sheet authorizing the sole source procurement action.

An American Samoan official responsible for the oversight of procurement transactions said that even though no statistics were maintained on the number of sole source procurements, it was his perception that sole source procurements had not been reduced since the 1988 Inspector General report.

After-the-Fact Approval for Procurements

We also found instances where American Samoan departments obtained approval for procurement transactions only after-the-fact. We believe that this practice circumvents requirements for competitive bidding and represents a major internal control deficiency. In 24 of the 39 procurement files reviewed, the date on the invoice or receiving report preceded the date shown on the purchase order. A procurement manager told us that it was common practice for some departments to proceed with the acquisition of goods or services and worry about the paperwork and approvals afterwards.

Four of the 39 procurements involved direct payment vouchers. According to a procurement official, it is American Samoa's policy that only small purchases not exceeding $150 should be made using the direct payment voucher method. However, in each of the four cases, the procurement exceeded $150, and in one case involved a purchase of $675.

Inadequate Oversight of Large Procurements

American Samoa's Procurement Rules require that requisitions be reviewed by the Office of Program Planning and Budget Development to certify the availability of funds and that contracts exceeding $10,000 be reviewed by the Attorney General to determine their legality. The rules also require that procurement actions exceeding $25,000 be reviewed by the Capital Improvement Project and Procurement Review Committee prior to the execution of contracts.

Of the 39 procurement files we examined, 19 contained no evidence that the Office of Program Planning and Budget Development had reviewed the purchase requisitions. For the 18 files representing transactions exceeding $10,000, 13 contained no evidence that the procurement had been reviewed by the Attorney General's office. For the 10 procurement transactions exceeding $25,000, 7 of the files lacked documentation that the Capital Improvement Project and Procurement Review Committee had reviewed the proposed procurement.

Lack of Complete and Accurate Records

The Procurement Rules require that specific records be maintained for each contract. We believe that these records are necessary to document that procurement and contracting procedures were adhered to. However, our review of seven selected contract files maintained by the Department of Public Works and representing contracts valued at $6.3 million showed that all were incomplete and, therefore, did not provide sufficient evidence that the Procurement Rules had been complied with. For example, we were unable to find copies of purchase requisitions, public notices, bid mailing lists, bid abstracts, evaluation results, and documentation supporting costs and prices.

Because the files were incomplete, we were unable to determine whether competitive bids were solicited. We were also unable to determine whether procurement and contracting actions were fully reviewed and approved by all the appropriate oversight officials.

Potential Conflict-of-Interest Cases

The Procurement Rules state that "it shall be a breach of ethical standards for any employee to participate directly or indirectly in a procurement when the employee knows that the employee or any member of the employee's immediate family has a financial interest pertaining to the procurement." The rules also state that upon discovery of an actual or potential conflict of interest, an employee shall promptly file a written statement of disqualification and shall withdraw from further participation in the transaction involved.

These procedures were not followed in the transactions we reviewed. The 1987 Inspector General report identified a potential conflict of interest between the Director of Communications and a firm owned by the Director's wife and children. We found that this potential conflict still existed. One purchase order prepared by the Office of Communications in March 1990, for about $158,000 had been awarded to the same family-owned firm. The procurement files contained no justification for this apparent violation of conflict-of-interest rules.

In another case, the Director of the Port Administration procured services from a private firm owned by his brother. We noted instances where the Director had signed key procurement documents such as the requisition order. A procurement official stated that in a small territory such as American Samoa it is difficult to separate tribal and official responsibilities in a business transaction.

Department Directors Not Held Accountable for Breaking Rules

Both the current and previous governors of American Samoa notified department directors that their departments must comply with American Samoa's procurement regulations. Memos to the directors also state that unless personnel comply with procurement rules and regulations, penalties or disciplinary action will occur. However, according to a procurement official, rules and regulations continue to be violated, and no penalties or disciplinary actions have resulted from failure to follow proper procedures.

Conclusions

The American Samoa government has routinely disregarded its own budgetary and expenditure controls. In apparent violation of American Samoan law, expenditures are made in excess of appropriated amounts, and responsible officials are not held accountable. In addition, there are substantial opportunities for American Samoa to better manage its expenditures, particularly in high-cost areas such as off-island health care, personnel, and procurement.

American Samoa sends many patients off-island because it does not have the necessary equipment or health personnel to perform some medical procedures. However, American Samoa has not strictly enforced procedures for authorizing off-island medical referrals and therefore may be incurring unnecessary costs for this expensive program. In addition, other weak internal controls have created substantial opportunities for abuse in the program.

American Samoa did not reduce the number of government employees as specified in the governor's 1990 cost containment plan. In addition, government departments have circumvented personnel ceilings through the use of short-term and emergency hires who were converted to temporary appointments. Stricter personnel management could help contain the territory's increasing personnel costs.

American Samoa has not corrected long-standing deficiencies in its procurement and contracting practices. Sole source procurements have been made without written justification, and procurement actions have not been properly reviewed. Consequently, it is questionable that American Samoa is obtaining goods and services at fair and reasonable prices. It appears that government officials have violated procurement regulations regarding competition, record-keeping, oversight, and conflicts of interest but have not been held accountable for their actions.

Recommendations

We recommend that the Secretary of the Interior make greater use of existing authority to withhold disbursement of operating funds as a means of ensuring that the American Samoa government strengthens its control over expenditure of government funds. Specifically, the Governor of America Samoa needs to

- require the Director of Health Services to (1) strictly adhere to procedures for authorizing off-island medical referrals, (2) document off-island patient files showing that authorizing procedures have been followed and that the rationale for sending patients to facilities other than Tripler Army Medical Center is appropriate, (3) collect from patients requesting and receiving care at facilities other than Tripler the difference in cost, (4) fully describe in authorization letters the services and treatment for which American Samoa will be paying, and (5) institute procedures to require patients to demonstrate that they have received the medical treatment authorized;
- enforce section 10.0601 of the American Samoa Code, which prohibits creating obligations and making expenditures that exceed appropriations;
- require the Director of Human Resources to implement personnel reduction goals as outlined in the governor's cost containment plan and strictly adhere to personnel budget ceilings by limiting the use of temporary appointments; and
- require the Procurement Officer to follow procurement regulations and implement recommendations by Interior's Inspector General to (1) limit the award of sole source procurements, (2) maintain complete and accurate records of procurement actions, and (3) ensure that all department directors are aware of their responsibilities to adhere to the procurement policies and to subject persons to disciplinary action when the rules are violated.

Agency Comments and Our Evaluation

The American Samoa government generally agreed with our findings and recommendations. However, its response to our draft report indicates it believes that there are no problems in the areas of accountability for expenditures in excess of appropriations and procurement.

For example, in response to our recommendation that American Samoa enforce section 10.0601 of the American Samoa Code, which prohibits creating obligations and making expenditures that exceed appropriations, the government stated that the law is fully enforced by the Attorney General and that any officer or employee of the government who knowingly violates it will be prosecuted accordingly. However, during our review we found that section 10.0601 had not been adhered to, yet no

responsible officials were held accountable. We believe that enforcing this requirement is essential to control unauthorized spending and enforce budgetary discipline.

With respect to procurement and contracting, the government stated that sole source procurements are limited to emergencies and those situations where there is only one known source and that such purchases must be justified in writing and properly reviewed. Further, the government stated that complete and accurate records of procurement transactions are maintained and files are constantly reviewed to ensure that they are in order. Again, we found that this was not the case. Instead, we found that the territory's applicable laws, policies, and rules for exercising management control over procurement and contracting practices were often ignored or circumvented; that competitive bidding requirements were not followed; that sole source procurements were made in many cases without written justification; and that procurement files were incomplete and did not contain adequate support for procurement.

The government acknowledged that it did not reduce personnel levels as specified in the governor's 1990 cost containment plan; however, it stated that several factors prevented it from meeting this goal, leading instead to an increase in government employment. The government said that it had to retain personnel to provide emergency services following Hurricane Ofa in February 1990. The government stated that following the emergency period, it had to convert a number of the emergency personnel to temporary employees to assist in the repair of government facilities damaged by the hurricane. As for the emergency appointments of 22 Department of Health personnel, the government stated that this was a matter of opinion as to what constitutes an emergency—that these positions were considered critical because "a hospital should be efficiently run to safeguard the health of all American Samoa citizens."

We agree that the emergency caused by the hurricane may have necessitated the temporary appointment of additional personnel. However, the hurricane struck in February 1990, and the additional personnel were not appointed until the period October 1990 through January 1991. Moreover, 104 individuals were converted from emergency to temporary appointments in January 1991—nearly 1 year after the hurricane. These included the Department of Health appointments in the maintenance and administrative areas which were not directly related to the emergency.

Interior's Oversight Has Not Been Effective

The Department of the Interior's actions to improve the financial management practices of American Samoa have been ineffective. Interior's Office of the Inspector General has reviewed many aspects of the territory's governmental operations and has recommended corrective actions, but American Samoa has been slow to respond to these recommendations. To encourage self-sufficiency and improve the territory's financial management, it is Interior's policy to limit the amount of annual operating assistance provided to the territory and to attach conditions to this assistance. American Samoa has only partially complied with these conditions, but Interior has not enforced compliance by taking sanctions against the territory such as withholding operating funds. Interior also has exercised limited oversight over grant projects but has taken steps to enhance its oversight role.

Interior's Oversight Responsibilities and Policy Objectives

Although American Samoa is essentially self-governing, Interior has oversight and policy responsibilities for the territory. Interior's Office of Territorial and International Affairs (TIA) is the principal staff office of the Secretary responsible for developing, recommending, and carrying out policy related to territorial matters. The responsibilities of the Assistant Secretary for TIA include oversight of all budgeting and financial management matters and operations as they relate to federal funds appropriated to the territories. TIA provides operations, capital improvement, and technical assistance grants to American Samoa, as well as direct technical assistance through federal experts. The Department of the Interior maintains a field office staffed by one professional employee in American Samoa to oversee and monitor the expenditure of funds under these grants.[1]

Interior's Office of the Inspector General has the responsibility and authority to audit the American Samoa government's accounts pertaining to revenues, receipts, and expenditures of funds and property. The Inspector General conducts periodic reviews of the government's financial operations and reports its findings and recommendations to the governor of American Samoa as well as to Interior and Congress.

Interior's broad policy objectives for American Samoa are to promote the territory's economic, social, and political development in order to lead to

[1]The position of field representative remained vacant from October 1990 until the current incumbent was hired in September 1991.

greater self-government and economic self-reliance. One of Interior's specific goals is to promote efficiency, management responsibility, and accountability within the local government.

Territory Has Been Slow to Respond to Inspector General Reviews

According to Inspector General officials, Interior's Inspector General had a field office in American Samoa from 1982 to 1985. They told us that the office was closed primarily for cost reasons but also because the American Samoa government was unresponsive to their report recommendations.

Since fiscal year 1985, the Inspector General has issued 11 audit reports on various aspects of American Samoa's governmental operations, including procurement, tax collection, and expenditure controls. In some cases, American Samoan departments failed to provide responses to draft and final reports within established deadlines. As of November 2, 1990, the Inspector General was tracking 70 report recommendations that American Samoa had not implemented. The recommendations pertained to the 11 audit reports dating back to 1985.

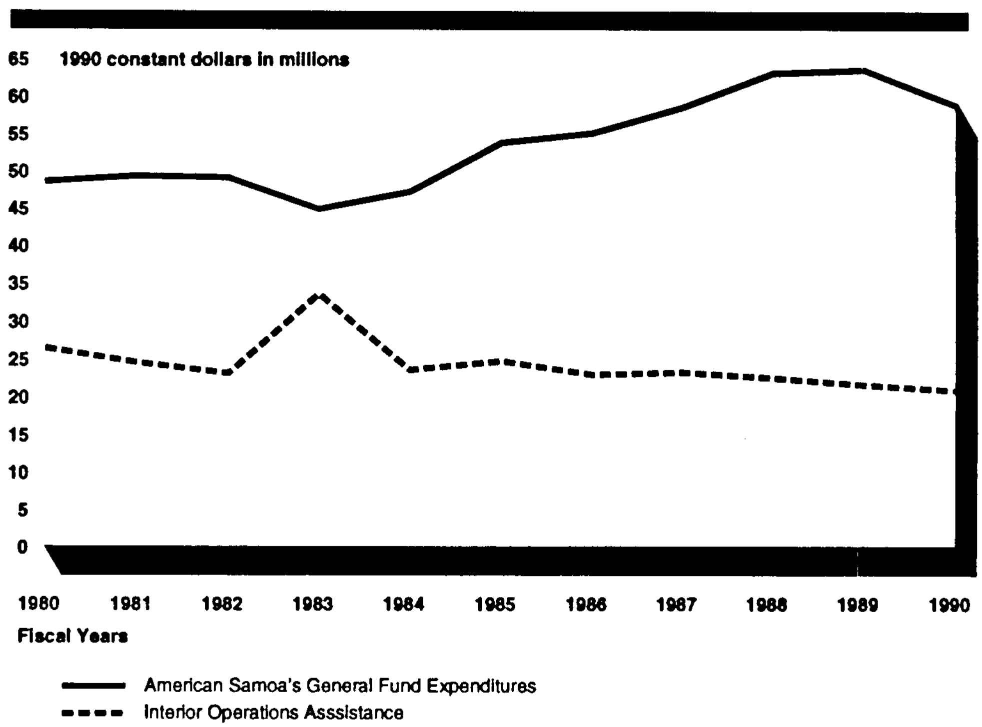
In July 1991, the Inspector General determined that American Samoa had "resolved" 50 of these recommendations based on evidence submitted by American Samoan officials. However, an Inspector General official told us that the office used a liberal interpretation of "resolved" to clear the backlog of recommendations from its tracking system. The official told us that the Inspector General would be performing independent follow-up work in critical areas to determine whether American Samoa had followed through on its corrective actions. In addition, the Inspector General has recommended that an official in the Governor's office, at least quarterly, formally ask responsible officials for the status of all unresolved and unimplemented recommendations, obtain documents that show evidence of corrective actions taken, and forward this material to the Inspector General.

Interior Has Limited Level of Operations Assistance to Encourage Increased Local Revenue Collection

Interior's policy is to request no increases in the size of the annual operations assistance grant, even though American Samoa's requests may be for higher amounts. Congress provides the territory an annual operations grant through Interior because American Samoa does not have sufficient revenues from local sources to cover its general government operating expenditures. The operations grant funds are deposited in American Samoa's General Fund and are commingled with local revenues, thereby losing their identity. As a result of this limitation on the level of

assistance provided, Interior's operating assistance has declined in constant 1990 dollars from $23.5 million in fiscal year 1984 to $20.7 million in fiscal year 1990. As a percentage of American Samoa's General Fund expenditures, this represents a decrease from 50 to 35 percent.[2] (See fig. 5.1.)

Figure 5.1: Interior Operations Assistance and American Samoa's General Fund Expenditures



Note: Figure for fiscal year 1983 includes a $7.2 million supplemental appropriation.

Interior officials told us that the policy of requesting no increases in the operating grant is an incentive for American Samoa to increase local revenue collections and to discourage growth in the size of the local government. In defense of this policy, one Interior official noted reports by the Inspector General indicating that American Samoa had not collected all

[2]In May 1991 hearings before the Subcommittee on Interior and Related Agencies, House Committee on Appropriations, the Governor of American Samoa indicated that Interior's operating assistance on a per capita basis also has declined substantially because of the territory's high population growth. Between fiscal years 1984 and 1990, per capita operating assistance in constant 1990 dollars declined from $672 to $494, a decrease of 34 percent.

potential local revenue. Interior also believes that American Samoa has not adequately controlled expenditures.

Draft Insular Policy Report Proposes Multiyear Funding

Interior has prepared a draft report on insular policy that, according to TIA officials, proposes negotiating a multiyear assistance agreement with American Samoa. In response to the Compact of Free Association Act of 1985 (P.L. 99-239), the Secretary of the Interior, in consultation with the Secretary of State, is required to submit a report to the Congress and the President defining policy toward specific U.S. noncontiguous areas and providing recommendations necessary to accomplish policy objectives. Although the report was due in January 1987, as of November 1991, the report was still in draft form pending resolution of differences within the Executive Branch.

Although TIA chose not to provide us a copy of the draft report, TIA officials who discussed it with us said that the report proposes a multiyear assistance agreement that would provide a gradually decreasing level of general operating assistance to American Samoa and increasing economic development assistance over several years. The officials told us that such an agreement would probably require that American Samoa meet additional internal control and performance standards for federal funds. They also indicated that the report proposes establishing a federal interagency group to work with American Samoa to remove impediments to economic growth and increase local revenues.

Interior believes that a multiyear funding arrangement would allow American Samoa to better plan its budgets and programs. Interior also believes that the increasing emphasis on economic development rather than on government operations would result in improved government efficiency and increase economic activity in the private sector. Likewise, American Samoan officials told us that they favored the idea of multiyear funding because it would facilitate long-term financial planning. While these observations may be true, we believe that attention and emphasis should first be given to addressing and correcting the control and accountability problems associated with the revenue collection, personnel, procurement, and other issues such as those discussed in this report.

Conditions on Operations Grant Have Not Improved Financial Management

Interior and congressional committees have placed conditions on operating assistance to American Samoa intended to improve the territorial government's control and monitoring of expenditures, increase recovery of health care costs, and enhance internal audit capability. These conditions have often not been effective because American Samoa has not fully complied with the measures and Interior has not strictly enforced them.

TIA recognizes that it can exercise leverage over American Samoa by holding up operations funding to the territory. However, it has been reluctant to do so because such an action could adversely impact critical governmental services such as health care and education.

Monthly Drawdown

In 1982, TIA placed America Samoa on a monthly drawdown system to preclude overspending early in the fiscal year. The scheduled monthly disbursements total the amount of American Samoa's operations grant for the year. Despite this action, American Samoa has often outspent its resources. Further, Interior has not rigidly held to the drawdown schedule. For example, in October 1989 and February 1991, Interior advanced American Samoa's monthly drawdown ahead of schedule to help American Samoa cover its immediate cash needs.

Expenditure Controls

In the fiscal year 1983 Supplemental Appropriations Act the Congress allocated $7.2 million for American Samoa to cover the territory's projected revenue shortfall. In making these funds available, the Senate Committee on Appropriations expected American Samoa to enact legislation that would prohibit the obligation of funds in excess of budget authority. American Samoa had enacted such a measure in 1977 but, as discussed in chapter 4, has not enforced it.

In 1987, the Senate Appropriations Committee expected American Samoa to develop a plan to improve revenue collection and control expenditures. The Committee expected Interior to verify that the plan was implemented before releasing $5.4 million in operating assistance for fiscal year 1988. Interior included this condition in the terms of the operations grant agreement with the territory. America Samoa developed a plan specifying several actions aimed at improving budgetary control, including prior approval by American Samoa's Budget Office and the Office of Procurement for all spending requests and a limit on the number of individuals with the authority to override the accounting system.

Interior subsequently released the $5.4 million, but American Samoa reported almost $3 million in General Fund budget overruns in fiscal year 1988. Further, Interior's Inspector General determined in 1989 that spending requests were not being properly approved and authority to override the accounting system had not been limited effectively. During the course of our review, we found that both problems had yet to be corrected.

Revenue and Expenditure Reports

Since fiscal year 1990, Interior has required American Samoa to submit a revenue and expenditure report before Interior approves the monthly drawdown of the operations grant. Interior stipulated that the reports were to provide information on the "sources and uses of funds to support government operations and an analysis of important trends and exceptions." Interior established this requirement to encourage American Samoa to better monitor its revenues and expenditures and to keep Interior informed of the territory's financial situation. American Samoa's reports to Interior compare the amount of revenues collected to expenditures but, with the exception of the first 2 months of fiscal year 1990, have not provided an analysis of budgetary performance. In spite of this deficiency, Interior has accepted these reports as meeting the requirement.

While Interior had no immediate way of knowing this, the reports also have not always provided an accurate picture of American Samoa's financial situation. For example, American Samoa's actual deficit between General Fund revenues and expenditures for fiscal year 1990 was about $7.4 million. However, none of American Samoa's fiscal year 1990 reports projected a deficit of more than $884,064, and the final report of the fiscal year showed a $174,902 surplus of revenues over expenditures. American Samoa's Deputy Treasurer told us that the reason for the discrepancy between the final report and the actual figure was that some of the data on the government's expenditures were not available until December 1990.

Establishment of Hospital Authority Has Not Increased Cost Recovery

In fiscal year 1991, pursuant to a congressional committee directive, Interior conditioned its release of $1 million in operations funds on American Samoa's establishment of a semiautonomous hospital authority having at least limited rate-setting powers. This action was consistent with Interior's position that American Samoa should institute measures for the recovery of health care costs.

American Samoa's health care system is highly dependent on federal subsidies. For example, in fiscal year 1991, about 84 percent of American

Samoa's budgeted revenues for the Department of Health were from federal grants. Because section 13.0601 of the American Samoa Code entitles the territory's residents, with few exceptions, to free medical services, the local government's recovery of health care costs is minimal. Patients who qualify for free treatment are charged $7.50 per inpatient day and $2 per outpatient visit for the use of facilities at the local hospital and government dispensaries. According to a hospital official, these charges have remained unchanged since 1982. American Samoa also pays the transportation and medical costs for eligible patients sent off-island for treatment.

In January 1991, the Governor of American Samoa signed an executive order creating a semiautonomous hospital authority. The hospital authority's charter gives it the power to develop and publish schedules of charges, fees, and services in accordance with section 13.0601 of the American Samoa Code. However, because American Samoa did not amend or repeal the section of the code entitling residents to free health care, the hospital authority has no power to charge most residents for health care services. Consequently, the gap between health care expenditures and recovered costs is not expected to decrease. In fiscal year 1990, American Samoa's Department of Health expended about $14.8 million but recovered only $1.45 million of this amount from the collection of health care fees and third-party insurance payments. In fiscal year 1991, the Department expected to recover $1.7 million in health costs but expected to spend over $15.1 million.

Although Interior was aware of the discrepancy between America Samoa's Code and the hospital authority's rate-setting powers, it accepted the charter as meeting the operations grant terms and released the $1 million. The Assistant Secretary for TIA told us that, in spite of its shortcomings, the establishment of the hospital authority was a good first step towards greater cost recovery.

Funds Earmarked for Audit Office Not Used

Interior's fiscal year 1991 operations grant to American Samoa included $96,000 to "bolster the territorial audit function, so as to improve oversight of revenue estimating techniques and expenditure control and to improve reporting on those items to both local officials and the Department of the Interior." American Samoa's Territorial Audit Office was established in 1985 for the purpose of providing independent appraisals of government activities. In fiscal year 1990, the audit office issued eight reports on the operations of the Development Bank of American Samoa,

the Department of Public Works, the Customs Division of the Treasury, and other government activities.

In preparing its fiscal year 1991 budget, American Samoa included the $96,000 in the Audit Office's fiscal year 1991 budget but, contrary to Interior's intent, decreased its own contribution to the budget by the same amount. Interior subsequently proposed using the $96,000 to temporarily detail an auditor from its Office of the Inspector General to provide training and advice to the Audit Office. However, TIA said that American Samoa was not receptive to this idea. Consequently, Interior withheld the $96,000, and the America Samoa government did not capitalize on the opportunity to bolster its internal audit capacity.

During the course of our review, we found that the Audit Office was not fully staffed. A 1986 organizational chart for the Audit Office shows 13 auditor positions. However, as of May 1991, the Audit Office had only five auditors. Furthermore, American Samoa had not made any effort to recruit for the Audit Office's top position, which became vacant at the end of 1990.

Interior's Oversight of Other Grants Limited but Improving

Until October 1990, Interior did not have formal procedures to closely monitor capital improvement and technical assistance grants. Consequently, it exercised limited oversight over these projects. However, Interior has taken recent steps to improve its grant oversight.

Capital Improvement Grants

American Samoa annually submits a list of capital improvement projects as part of its budget proposal to Interior. TIA reviews the list of projects based on merit and funding constraints and incorporates them into its annual budget requests. Between fiscal years 1985 and 1990, $28.2 million in grant funds provided to the territory was used for water systems improvements, hospital renovation, school construction, and other projects. The purpose of these grants is to assist the territory in providing infrastructure improvements that increase opportunities for economic and social development.

TIA's oversight of capital improvement grants has been limited. Until October 1990, Interior did not have procedures to closely review and report on the status of grant projects. Interior began conducting more thorough project reviews in fiscal year 1991 but found that American Samoa had not kept adequate financial records for some projects. In

addition, although Interior's field representative in American Samoa retired in October 1990, Interior did not select a full-time replacement until August 1991. While the field representative position was vacant, an Interior desk officer made two visits to American Samoa to do project evaluations. This effort was worthwhile and produced useful information, but due to time constraints, the officer was not able to visually inspect or collect full information on all projects.

Interior's lack of project oversight has prevented it from adequately monitoring American Samoa's grant expenditures. For example, Interior was not aware of American Samoa's use of grant funds for a prison construction project. In December 1986, Interior provided American Samoa a $750,000 construction grant to extend an existing prison in the town of Tafuna and to build two smaller, less intricately designed prisons. The Tafuna prison was built in 1977 to hold 50 inmates but by 1986 was housing an average of twice that many. The Interior grant was intended to cover the full design and construction costs of all three projects.

However, an American Samoa official told us that in 1988, American Samoa awarded a contract to an architectural firm to design a single new prison capable of housing 120 inmates. The firm's report accompanying the resulting design estimated that building the facility would cost between $3.5 million and $6.6 million. American Samoa tried to obtain additional federal funding to complete the project but was unsuccessful.

In June 1989, without having secured additional funding, American Samoa awarded a $268,000 contract to prepare construction drawings and specifications, obtain bid proposals, prepare construction contracts, and coordinate construction of the facility. By February 1991, Interior had approved $321,139 in grant drawdowns. However, TIA was not aware of the 1989 contract or that American Samoa intended to build a multimillion-dollar facility until it performed a project review in April 1991.

In April 1991, Interior suggested that American Samoa use the remaining grant funds to build a simple, dorm-style prison. An architectural firm estimated that constructing a 48-person dorm-style prison would cost approximately $400,000. An American Samoa Department of Public Safety official told us that such a facility would relieve overcrowding at the existing prison but would not address its dilapidated condition. As of May 16, 1991, the Tafuna prison held 84 inmates and had numerous sanitary problems.

Technical Assistance Grants

In 1982, Interior established a formal technical assistance program intended to improve territorial government operations. Territorial governments submit grant applications to Interior, which reviews projects for merit and need and funds approved projects out of a discretionary technical assistance account. As of March 1991, Interior had obligated over $3.9 million to American Samoa for training, technical studies, financial advisers, and other purposes.

The technical assistance program has been a useful tool for improving efficiency and accountability within the American Samoa government. For example, as a result of a fiscal year 1986 grant to install an automated financial management system, American Samoa is able to produce accurate financial statements. Under a fiscal year 1988 grant, American Samoa's Tax Office received training by U.S. Internal Revenue Service officials. More recently, Interior has signed an interagency agreement with the U.S. Department of Agriculture Graduate School to undertake a long-term financial management training effort throughout the local government.

However, Interior has exercised limited oversight over some of these projects. For example, Interior has not enforced reporting requirements specified by technical assistance grant terms. Although Interior can deny grant drawdowns until American Samoa submits all required reports, it has not always done so. Our review of Interior's files for 22 projects completed between fiscal years 1988 and 1990 showed that American Samoa had not submitted final narrative reports in 14 cases. In two cases, Interior's files did not contain any narrative reports or any indication of project results. One of these projects was a study to develop a position classification system. Implementation of the study's results was part of American Samoa's fiscal year 1990 financial recovery plan. The other project was for a fixed assets inventory study resulting from an Inspector General review of American Samoa's property management. We found that both studies had been completed but that the results of the position reclassification study had not been fully implemented.

Improvements in Oversight

Interior has taken steps aimed at improving its oversight of capital improvement and technical assistance grants. For example, in October 1990, Interior revised and clarified the responsibilities of its field representatives in the insular areas to include specific grant oversight duties. Prior to this time, the field representative's duties were not well-defined. The field representative is currently required, among other duties, to (1) maintain working files on all grant projects,

(2) ensure receipt of project reports, (3) conduct quarterly on-site project surveys, and (4) meet regularly with government project officials to discuss the status of the project and assist in solving problems that may be hindering progress or completion.

A joint Department of the Interior and Office of Management and Budget review team also has been created to address financial management problems in the insular areas. The team will also focus on federal authority issues as well as possible legislative initiatives.

In addition, Interior is negotiating a cooperative agreement with the Army Corps of Engineers' Honolulu Office to assist in monitoring American Samoa's management of construction projects funded by Interior grants. Interior expects to finalize this agreement by October 1992.

Conclusions

Interior's broad policy objectives for American Samoa are greater self-government and economic self-sufficiency. We believe that sound financial management is critical to the attainment of these goals. However, Interior has not enforced operating assistance conditions intended to improve American Samoa's financial practices. Consequently, American Samoa has continued to overspend its budgets, has not taken meaningful steps to increase recovery of health care costs, and has not bolstered the capacity of the Territorial Audit Office. Moreover, the territory has not provided adequate reports to Interior on its financial condition.

Interior also has not exercised adequate oversight over capital improvement and technical assistance grants. As these programs can result in significant benefits to American Samoa's economic development and governmental management, it is important that Interior regularly monitor grant projects and obtain all required status reports. We believe that the steps Interior is taking to clarify the responsibilities of field representatives and negotiate a cooperative agreement with the Army Corps of Engineers could significantly improve its oversight.

In addition, although American Samoa's recent responsiveness to Interior Inspector General recommendations is encouraging, we believe that the territorial government's generally poor record in correcting deficiencies identified by Inspector General audits have perpetuated American Samoa's long-standing financial problems.

Matters for Congressional Consideration

The Congress may wish to direct the Secretary of the Interior to condition the disbursement of operating assistance to American Samoa on the territorial government's implementation of sound financial management practices, including (1) enforcing American Samoa's prohibition on obligations or expenditures in excess of budget appropriations, (2) adhering to procurement and contracting regulations, (3) improving management of the off-island medical referral program, (4) holding responsible officials accountable for violating laws and regulations governing these activities, and (5) promptly implementing the recommendations of Interior's Inspector General. The Secretary should be required to enforce this conditionality whether or not the multiyear funding concept is adopted by Congress.

The Congress may also wish to require the Secretary to report to the cognizant authorization and appropriation committees the status of corrective actions taken or planned regarding long-standing financial management weaknesses as identified by GAO and the Department's Inspector General and through the Single Audit Act.

Recommendations

We recommend that the Secretary of the Interior make greater use of existing authority to withhold disbursement of operating funds as a means of ensuring that the American Samoa government strengthens its financial management practices. Specifically, the Governor of American Samoa needs to (1) fill vacant positions in the Territorial Audit Office; (2) submit monthly revenue and expenditure reports to Interior that provide complete, accurate, and meaningful information about the territory's financial condition; and (3) initiate action to empower the hospital authority to charge residents for health care services and require the hospital authority to institute procedures to recover health care costs.

Agency Comments and Our Evaluation

The Department of the Interior agreed with the basic findings of the report and with the validity and importance of the report's recommendations. The Department commented, however, that the Secretary of the Interior does not have the authority to supervise or give binding instructions to the Governor of American Samoa and thus cannot force adherence to the report's recommendations.

We agree that the Secretary does not have direct supervisory authority over the Governor concerning financial management matters. However, the Secretary has a responsibility to oversee and monitor the use of federal

funds provided to the territory and to ensure that they are used prudently and in accordance with established regulations. To fulfill this responsibility, the Secretary has the authority to make the release of funds subject to meeting certain conditions; for example, the Secretary could withhold the release of funds until the American Samoa government has implemented actions necessary to correct reported deficiencies. Congressional committees and Interior have set conditions on the release of assistance funds that were intended to bring about needed improvements; however, these conditions were ignored by the American Samoa government and not enforced by Interior.

Interior stated that multiyear funding would increase federal leverage to achieve financial management reforms. We agree that this concept represents a more formal, structured means of attaining improvement and change, especially with regard to long-term economic development issues, but we believe that even without implementation of this concept adequate leverage currently exists to address the basic management problems.

The Department observed that our report offers no new suggestions for improved financial management. We agree with Interior that the problems and deficiencies have been identified and reported on, often more than once, and that solutions have been recommended. Nevertheless, very little has been done to correct the problems. They continue to exist, for the most part, because of American Samoa's failure to comply with or to enforce compliance with existing regulations and guidelines. We believe the Secretary of the Interior must use the authority he already has to see that the American Samoa government takes the necessary corrective actions.

The American Samoa government said that it agreed with our recommendations. The government stated that it is advertising for an audit manager and audit technician for the Territorial Audit Office and that it will fill other vacancies when funds become available. It also stated that a proposal to charge residents for health care services is under review. However, the government's response to our recommendation that it submit complete, accurate, and meaningful monthly revenue and expenditure reports to the Department of the Interior indicates it believes that there are no problems in this area. We found, however, that the reports submitted were not always (1) in accordance with the grant agreement, (2) timely, or (3) accurate and complete.

Comments From the Department of the Interior

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

January 28, 1992

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and
International Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on your draft report entitled American Samoa: Inadequate Management and Oversight Contribute to Financial Problems (GAO code 472244), transmitted by your letter of December 27, 1991.

The Department agrees with the basic findings contained in the report. These findings provide documentary evidence of numerous management control breakdowns in the American Samoa Government and are consistent with statements expressed by Department officials about American Samoa over the past several years and information provided by the Department to the General Accounting Office (GAO) during the course of researching and preparing this report.

The Department sincerely hopes this report will inform Congress and the interested general public of problems in American Samoa, thereby generating support for corrective actions the Department is undertaking or contemplating. Most importantly, we hope the report will generate action by American Samoa to correct the specific deficiencies raised in the report and improve the general control environment within the American Samoa Government.

The Department is pleased that many of its technical assistance efforts were favorably noted in the report. The technical assistance program has addressed many of the problems documented by the GAO. The report states, "American Samoa has significantly improved its financial reporting," particularly since 1988. It was at this time the Department began a major technical assistance effort to provide the American Samoa Government with a new automated financial management system. This system, as with all of our technical assistance efforts, can only provide American Samoa with the tools for effective management and control. The ultimate use of these tools resides with local officials in their exercise of self-government. We have also provided technical assistance in three other areas described in the report.

One such area is the control of medical referrals and health care management. Based on the findings in an earlier GAO report entitled "Ways to Reduce the Costs of Medical Referral Programs in Micronesia and American Samoa," the Department, in conjunction with the Public Health Service, designed a program in 1984 to reduce inappropriate referrals. The program made use of pre-transfer medical consultations, advanced referral notice to Honolulu hospitals, maintenance of a physician registry, monitoring of patient progress and limiting treatment to that requested by the referring physician and facilitating timely of discharge. During the 24-month project, written procedures were developed and Off-Island Referral Committees were established in each jurisdiction, along with standards and criteria for proper referrals. When the project was completed and turned over to local governments for continuation, American Samoa chose not to provide local funds to continue the program. The Department also provided technical assistance funds to hire a management firm for the hospital in American Samoa. The contractor initiated numerous improvements in hospital management and provided training and advice to local officials for continuing improvements to health care delivery, including medical referrals.

A second area in which the Department provided technical assistance was to improve procurement policy and practices. The Department sent its own procurement experts to American Samoa on several occasions to help draft effective procurement legislation, to develop and document procurement procedures, and to train local employees in general procurement and contracting skills. Again, this program is only as effective as the American Samoa Government's desire and efforts to continue it.

In addition, the Department has provided significant technical assistance to improve tax policy and administration. As referenced in the report, this has included long term assignments of Federal experts from the Internal Revenue Service and the U.S. Customs Service. Most recently, the Department paid for a team of experts from the Internal Revenue Service to evaluate the tax system in American Samoa. Their ensuing report concluded the Federal tax system is not a hindrance to American Samoa's economy and recommended against abandonment of the mirror code. However, the American Samoa Government could exercise its authority to delink from any provision of the Internal Revenue Code that is incompatible with its needs. The report included a proposal by the Internal Revenue Service to help American Samoa automate tax return information and document processing and to provide a continuous training program for American Samoa Tax Office collection and audit personnel. We have been waiting more than six months for American Samoa to respond to this proposal.

The Assistant Secretary has also offered to put together a team of Federal and non-government experts to help American Samoa develop a comprehensive plan to improve its financial position. This plan would necessarily include a means of tracking success so that implementation could be closely monitored. The American Samoa Government has not responded to this offer.

See comment 1.

The Department is pleased that the report notes recent efforts to improve monitoring of Interior grants. This includes greater use of field representatives in the grants monitoring process to complement grants management responsibilities of the Budget and Technical Assistance Divisions within the Office of Territorial and International Affairs. As the report notes, the Assistant Secretary issued specific guidelines to field representatives in 1990 to further delineate their responsibilities. However, the report should not use this fact to conclude that the field representatives did not have duties or responsibilities in this area prior to 1990.

See comment 2.

The report implies that the Department should not have accepted financial management reports which were later proven to be inaccurate and otherwise deficient. This implication fails to recognize that operational grant subsidies are provided on a "real time" basis for the assistance to meet its intended purpose. We do not have the luxury of waiting until audited financial statements prepared in the following year prove the reports to have been accurate or inaccurate. The same holds true for implementation of financial recovery plans tied to the appropriation for American Samoa operations. While we support such Congressional directives, we must rely on judgements as to the feasibility of the plan and whether the mechanisms are in place to make the plan work rather than waiting to see if all aspects of the plan have actually been carried out.

See comment 3.

Another control technique referenced in the report is the Department's practice of paying operational funds on a monthly basis. This effective control was put into place in 1983. We are not certain what point the report is attempting to make by raising two examples during the past nine years when the Department exercised management discretion and made payment prior to the beginning of the month.

See comment 4.

In the area of construction grants, the report states the Department was unaware of plans by the American Samoa Government to build a multi-million dollar prison. We were aware of this plan and had discouraged its implementation given the limited amount of money available. What the Department was not aware of was that a contract had already been awarded by the American Samoa Government for the design of a larger facility. This information was not given to us by the American Samoa Government until after the fact. As soon as we received this information, the Deputy Assistant Secretary met with American Samoa officials and sent a letter in July 1991, requesting a full accounting of

funds already expended and a detailed plan for use of the remaining funds. If the Department determines that any expenditures were inappropriate, the costs will be disallowed.

Nevertheless, GAO is absolutely correct in pointing out that the Department needs to improve its oversight of construction projects. We recognized this problem and sought funds in the fiscal year 1992 budget to enter into an agreement with the Army Corps of Engineers to provide technical oversight of our construction grants in the Pacific insular areas, including American Samoa. Congress appropriated $150,000 for this purpose and we will be signing an agreement with the Corps within the next two months. While we can never "ensure" that the Department will be aware of all aspects of every construction project, technical oversight by the Corps will most certainly improve grants monitoring and provide valuable assistance to the insular governments.

See comment 5.

The report notes the Department's attempt to establish a field office in Hawaii to help oversee technical assistance and management control improvements. GAO should be aware that this proposal was rejected by the Congress in its conference report on the Department's 1992 appropriations.

See comment 6.

Also, the Department does not have specific responsibilities or authority to oversee grants from other Federal agencies as is stated in the report. Financial assistance in the Federal government is decentralized, with each Federal agency responsible for monitoring and overseeing its own grants. As the lead agency in American Samoa, the Department is responsible under the Single Audit Act for resolving cross-cutting findings related to management controls.

See p. 62.

The Department is disappointed that the report does not offer any new suggestions for additional improvements, although it references the need for Congress to consider new legislation. Recommending that the "Secretary take action to ensure..." problems are fixed does little to advance the Federal effort to improve financial management in American Samoa. The Department believes the recommendations are valid and reflect important actions that should be undertaken by the American Samoa Government to improve its overall financial position and its general control environment. However, the Department does not believe the Secretary has the legal, supervisory authority to force adherence to these recommendations as is implied throughout the report.

See pp. 61-62.

With respect to matters within the authority of the "executive power" of the American Samoa Government, the Secretary now has no authority to supervise, or to give binding instructions to the Governor. This has been true, at least since the Governor became a popularly-elected official in 1977. (Before then, if the Secretary attempted to "supervise" the Governor, and the Governor resisted, the Governor, an appointed official, could be

removed.) Since 1983, when the Constitution of American Samoa became frozen as a result of 48 U.S.C. 1662a, the Secretary not only cannot supervise the Governor when the latter is exercising the "executive power" of American Samoa, but he cannot himself amend the American Samoa Constitution to change this state of affairs. In summary, the Secretary cannot supervise or give direction concerning matters within the "executive power" of the American Samoa Government.

Notwithstanding the question of the Secretary's authority, the report appears to envision a degree of oversight and a presence in American Samoa that is far beyond the Department's current capacity. The Department's aforementioned efforts to strengthen its oversight capability have been done within severe budget and manpower constraints, consistent with Administration policy and Congressional intent, as expressed in appropriation actions. The Office of Territorial and International Affairs was created primarily as a policy office and carries out its program responsibilities with a total staff of approximately 45 employees. Its responsibilities span seven insular governments. Neither the Administration nor Congress has taken action to increase the capacity of the office. In fact, severe budget constraints were a major reason for the Department's delay in filling the American Samoa field representative position. In this regard, the report fails to mention that a desk officer was sent to American Samoa for several months to carry out critical functions of the field representative.

See p. 58.

See comment 7.

Given the emphasis the report places on a Federal presence in American Samoa and the need for close oversight of Federal funds, the Department is very surprised the report offers no comment or recommendation regarding the decision of the Inspector General to close a sizable field office in American Samoa.

The Department and the Administration recognize the critical need to promote better management controls in American Samoa and the other insular areas. The report mentions the pending insular policy report, mandated by Public Law 99-239, and currently under consideration within the Administration. The Department is not allowed to release the insular policy report until final clearances are completed within the Administration. However, in the context of preparing this policy report, the Administration is considering a multi-year funding proposal for American Samoa. A concept of multi-year funding would be to increase Federal leverage and incentives to promote changes in American Samoa. This would include much tighter control of funds and general management improvements as a condition of the funding. It also would focus on joint Federal-local efforts to promote economic development in American Samoa. Also, within the context of the policy report, the Administration is considering a legislative initiative to increase Federal enforcement capabilities in American Samoa by expanding Federal court jurisdiction.

Finally, I would like to highlight that the Administration has recently created a joint Department of the Interior and OMB management review team to address problems of inadequate management controls, and the consequent risk to Federal funds, in all of the insular areas. We expect this review to be completed during the current fiscal year. The team will concentrate on many of the issues discussed in your report, as well as Federal authority and possible legislative initiatives. It will also concentrate on policies regarding the appropriate degree of Federal oversight and developing reasonable Federal expectations and standards for financial management in the insular areas.

In conclusion, the Department does not dispute the findings contained in the report. However, we believe significant issues regarding the Secretary's authority and the Department's capacity to oversee insular governments have been oversimplified or not addressed in the report. The Department remains strongly committed to improving the management control environment in American Samoa and working with Congress to resolve problems related to legal authority.

Sincerely,

Stella Guerra
Assistant Secretary
Territorial and International Affairs

The following are GAO's comments to the Department of the Interior's letter dated January 28, 1992.

GAO Comments

1. Our report states that the field representative's duties were not well-defined prior to October 1990, not that there were no duties or responsibilities at all as implied by Interior's comment.

2. Our point is that the reports submitted by American Samoa did not provide the kind of information and analysis stipulated in the grant provisions, and Interior therefore should not have continued to accept them. Our comment on the inaccuracy of the reports was not meant to imply that this was Interior's responsibility. We recognize that Interior has no way of knowing how accurate the reports are when received. We have modified the report to convey this more clearly. We do not agree, however, with Interior's assertion that the same holds true for implementation of the financial recovery plans. We believe that Interior could have actively monitored the situation through the field representative or by requiring American Samoa to report periodically on actions being taken to implement the plan. We believe that American Samoa is more likely to comply with grant conditions if the efforts are closely monitored and grant funds are withheld when conditions are not met.

3. While we agree that this is a judgmental situation and it is within Interior's discretion to advance operating funds ahead of the draw-down schedule, we believe that the purpose of the schedule is undermined when Interior does not adhere to it.

4. We agree that Interior was aware of American Samoa's tentative plans, dating back to 1985, to build a multimillion-dollar prison facility. However, as Interior noted, it was unaware of the design contract that marked American Samoa's first concrete effort to carry out the plan. While Interior was correct in requesting a full accounting of the expended funds, we believe that more proactive oversight could have prevented the misuse of grant moneys and better served American Samoa's need for improved prison facilities.

5. We have deleted the discussion about the proposed Hawaii field office from our report and have added Interior's comment that a joint Interior-Office of Management and Budget review team has been created to address financial management problems in the insular areas.

6. We agree that Interior does not have specific responsibilities or authority to oversee grants from other federal agencies. We believe, however, that Interior has broad administrative responsibilities to help improve American Samoa's financial management generally and thereby improve accountability over all federal resources.

7. The report does not emphasize or focus on the need for a federal presence in American Samoa other than the fact that we endorse the field representative position. While there is far more activity than one individual can oversee, by monitoring troubled areas, such as procurement, the representative can alert Interior to problems and identify areas having audit potential as well. We did not analyze the costs and benefits of maintaining an Inspector General office in American Samoa. However, it is not certain that the Inspector General's presence there had any significant impact on solving American Samoa's financial management problems. We believe that the principal problem in American Samoa is the territorial government's failure to correct long-standing and often-reported deficiencies and not the lack of audit coverage.

Comments From the American Samoa Government

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

OFFICE OF THE GOVERNOR
American Samoa Government
Pago Pago, American Samoa 96799

Peter T. Coleman, Governor
Galea'i P. Poumele, Lt. Governor

Telephone (684) 633 4116
Fax (684) 633 2269

February 10, 1992

Mr Frank C. Conohan
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Conohan:

Please find enclosed the American Samoa Government response to the GAO Draft Report entitled "American Samoa: Inadequate Management and Oversight Contribute to Financial Problems." The response is in two parts: an executive overview and a letter dated February 4, 1992 which addresses GAO recommendations point by point.

At the outset, please permit me to make a number of observations in this cover letter. First, I am gratified that the draft report contains no findings of graft, fraud or corruption in my administration. Second, there are no shocking revelations. Virtually all of the GAO conclusions concern problems we have identified previously. Third, I believe we all would agree that the resolution of most of these problems will take time, training and additional financial resources.

As you are well aware, this response had to be prepared under the severest of adverse circumstances: the recovery from the most devastating hurricane in our modern history. Each time we are forced to put aside the routine business of government to handle such emergencies--and we have suffered three major storms in the past five years--our ability to implement auditor, inspector general, GAO or management consultant recommendations falls even further behind. Therefore, sections of the report such as the one beginning on page 61 entitled "Territory Has Been Slow to Respond to Inspector General Reviews" may be accurate as far as they go, but fall short by not noting that such major events as the three hurricanes effect the speed of the responses.

Mr. Frank Conohan
February 10, 1992
page two

Nonetheless, we will do our best to implement your suggestions where we agree, point out why we are unable to follow your recommendations where we do not agree and fill in the gaps where your report may be incomplete.

Because your study covers a time period which encompasses two administrations, we believed it important that the previous governor and lt. governor be provided an opportunity to respond to your draft, particularly since both GAO and we have pinpointed 1986 as the year in which the ASG's most serious current financial problems began. In fairness, the administration in place at that time needed a chance to comment on such items as the section beginning page 25 entitled "Financial Success Ended in Fiscal Year 1985," for example, since political decisions made by the leaders of the day contributed to the subsequent problems.

Similarly, because a number of the policies implemented by the previous administration required legislative concurrence, the Speaker of the House and the President of the Senate also were provided an opportunity to comment on the draft report. Additionally, a number of remedial steps this administration would have taken more recently were hampered by lack of legislative authority. Again, we thought it only fair that the leadership have an opportunity to respond to such sections as "Financial Recovery Plans Not Fully Implemented" (beginning page 28), since rejection of our proposed legislation made it impossible to implement the integrated plan. The draft report lists all the elements of our plan but the chart on page 29 only notes which parts were implemented and which were not without specifying that a number of the components could not be implemented because they lacked legislative authority.

Although there are other instances where the report inadequately addresses all the causes of our shortcomings, I want to let these few examples serve to illustrate the point, lest this whole study be reduced to an exercise in finger-pointing. Both responses received to my letters inviting the leaders of the previous administration and the legislature to comment on the draft are appended to this response unedited and without further comment.

See comment 1.

Finally, I realize your auditors would be aware that there are those who believe that the call for this study was politically motivated. Please let me assure you that we welcome this review as a management tool, regardless of what may have prompted it. Indeed, I had hoped such an analysis might have been undertaken during the transition period between the previous administration and mine. While that did not come to pass for a number of reasons,

Mr. Frank Conohan
February 10, 1992
page three

let me utilize this report as a vehicle to renew my call to any and all appropriate federal authorities to institutionalize a program of reviewing the territory's financial position any time there is a change of administrations in the future.

Sincerely,

Peter T. Coleman
PETER T. COLEMAN
Governor

Enclosures

OFFICE OF THE GOVERNOR

American Samoa Government
Pago Pago, American Samoa 96799

Peter T. Coleman, Governor
Galea'i P. Poumele, Lt. Governor

Telephone (684) 633-4116
Fax (684) 633-2269

EXECUTIVE OVERVIEW

I. SUMMARY

On balance, the your report reflects the professionalism the GAO staff demonstrated during the review in question and contains insightful recommendations that should help the American Samoa Government (ASG) improve the management of its government operations. In the course of such reviews, however, auditors sometimes omit certain perspectives either because they are not documented, they are inadequately explained during interviews, they are unpublished in the news media, or they are dismissed as philosophical or political observations. However, these perspectives are crucial in understanding the past and planning a course of action for the future.

II. THE DEFICIT

See p. 26.

The deficit is an accumulation of past policies and programs which have caught up with the government. Each administration makes decisions for which succeeding administrations must pay. The current administration, for example, is saddled with an annual payment of $1.3 million to retire the debt incurred to finance a new executive office building. This administration also must find financial resources to repay the federal government for over $1 million disallowed costs in connection with the 1987 Hurricane Tusi recovery program. Neither are results of this administration's policies but funds nevertheless must be found to satisfy the inherited obligations.

The first elected administration in American Samoa in 1978 inherited a deficit of over $10 million from an appointed governorship. Within two years, it was able to erase the deficit and balance the American Samoa Government budget, a fact which once earned compliments from the Chairman of the House Subcommittee on appropriations for Interior and Related Agencies in one of the hearings. Likewise, the GAO draft report itself noted on page 20 that "American Samoa has significantly improved its financial reporting since 1978, when its first elected governor took office."

There was a revenue shortfall in 1983 which required a supplemental appropriation of $7.2 million from the federal

government to continue operations. In addition, cost containment measures were put in place and government employees were placed on reduced working hours for several months. These actions normalized government finances. The GAO draft report stated that the problem was revenue collections. While the finding is partially true, there are not always sufficient revenues available to collect. In reviewing events of the past, a revenue shortfall was discovered under one of the federally appointed governors in 1976. In searching for the cause, it was accidentally discovered that it took two years for the local economy to experience the negative economic impact of the oil embargo of 1973/74 together with the drought during the same period which caused the canneries to shut down for several weeks.

Similar events such as a major oil price increase in world markets and a local drought in 1980 impacted revenues in 1982/83. These conclusions cannot be quantified except to say that these two historical cause-and-effect events had similar roots, similar timing differentials, and similar economic impacts. It is not just a collection problem. There were other external and natural events which were beyond the American Samoa Government's control, such as those mentioned above, which contributed to the revenue shortfall.

Another important factor in understanding the deficit is its nature. The draft report correctly stated that during the early 1980s the deficit was created by the general fund subsidizing (or advancing to) other government funds such as the ASPA, the Marine Railway, Airport Enterprise Fund and the Grant Fund. This was an indication that the general fund was healthy and was able to nurture other funds until they became self-sustaining.

Unfortunately, the nature of the deficit changed fundamentally in 1986 as was noted in the draft report. The general fund expenditures exceeded general fund receipts and therefore could no longer subsidize other operations. It forced the general fund to draw from other reserve funds to remain alive.

Compounding the problem was another fundamental change in 1986 which was not mentioned in your report: all bank accounts were consolidated under one general fund bank account and one payroll clearing account. On the surface, the consolidation appeared to be a strategy to improve the investment of excess cash. In reality, it was a smokescreen. It was simply a way to prolong the miserable direction in which the government's cash position was headed.

If the government is to correct its deficit status, it must begin by reversing these two fundamental changes, and return them to their pre-1986 status. Obviously, these changes cannot be made until the deficit first is erased.

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See pp. 33-34.

III. <u>TAX COLLECTIONS</u>

While there are problems with our tax collections, they have not been articulated well enough to appreciate their magnitude and what is being attempted to resolve them.

The first major problem has to do with our local tax system mirroring the IRS Code. Under Section 482, IRS revenue agents are authorized to distribute, apportion, or allocate gross income, deductions, credits or allowance between or among taxpayers if the revenue agents believe such allocation is necessary to more clearly reflect the tax liabilities of the taxpayers. The revenue agents are guided by IRS regulations in making such allocations. The two major U.S. corporate taxpayers have elected to file under Section 936 of the IRS Code relating to possession tax credits in order to take advantage of the Section 482 adjustments mentioned above. The net result is that these taxpayers have paid their taxes owed to the U.S. Treasury based on IRS audits and are now claiming multimillion-dollar tax refunds from the American Samoa Government. One claim that is currently being examined by the ASG tax office is estimated at over $10 million.

ASG's choices are limited. First, the government intends to pursue negotiations with the Internal Revenue Service in order to work out agreements on Section 482 adjustments that are mutually beneficial to the U.S. Treasury and the American Samoa Government. Secondly, technical assistance funds have been requested from the Department of the Interior to revise local tax laws to fit our local economy and cultural setting with an eye towards de-coupling American Samoa from the IRS Code. The request which was turned down last year has been resubmitted this year. A GAO endorsement of this request as part of its recommendations to the Interior Department would be greatly appreciated.

The second major problem with our tax collection efforts relates to personnel compensation, training and the number of agents. The average starting salary for revenue agents is $10,187.00 per year. College graduates cannot be attracted at this low salary rate. Increasing the number of agents with appropriate qualifications would require funding which the government does not have at this point. The Internal Revenue Service did an assessment of training and technical needs for our tax office and they have submitted a two-year proposal that would cost over $900,000. This proposal will be discussed with the Department of the Interior for possible funding through their technical assistance program. Even if ASG had adequate funding to attract highly qualified agents, salaries still would have to have some limitation so as not to skew the overall ASG personnel compensation system.

Once these two major issues are addressed, the tax collection problems will be resolved.

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See p. 26.

IV. FINANCIAL RECOVERY PLAN

The draft report mentioned the number of cost containment and revenue measures which were implemented and those which were not. What it did not mention is an adversarial Senate side of the local legislature which seemed set in blocking almost every attempt to raise revenues, contain spending or mandating inventory and personnel ceilings. For example, it took almost two years to pass the 5% excise tax which was finally implemented in October 1990. Most of the other measures were either disapproved or tabled in legislative committees.

Part of the problem is not the legislative process but the difficulty in understanding the complicated relationships between deficits and financial policies, local economy, U.S. and world economies, demands by local citizens, U.S. Government expectations and how they all fit together in a cohesive long-term strategy for American Samoa. I believe the foundation has been laid and we will continue to work together with the legislature to find a permanent solution to our deficit problem.

February 7, 1992
Pago Pago, American Samoa

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OFFICE OF THE GOVERNOR
American Samoa Government
Pago Pago, American Samoa 96799

Peter T. Coleman, Governor
Galea'i P. Poumele, Lt. Governor

Telephone (684) 633-4116
Fax: (684) 633-2269

February 4, 1992

Serial: 106

Mr. Frank C. Conohan
Assistant Comptroller General
GAO-United States General
Accounting Office
Washington, D. C. 20548

Dear Mr. Conohan:

The following is in response to the General Accounting Office's draft report entitled "Inadequate Management and Oversight Contribute to Financial Problem (GAO code 472244). The American Samoa Government concurs with your findings and recommendations.

GAO Recommendation:

That the Secretary of the Interior take actions to ensure that the Governor of American Samoa:

1. Apply revenues in excess of budget estimate towards reducing/eliminating the General Fund deficit and thereafter build up a reserve to accommodate any future revenue shortfalls.

Governor's Response:

We have taken this recommendation into consideration as a part of our proposed solution to the deficit. This is still our intention in the future if and when we have any excess revenues, to apply towards reducing/eliminating the General Fund deficit and thereafter build up a reserve to accommodate any future revenue shortfall.

We have had no excess revenues for the last four (4) fiscal years. The recommendation is very well taken.

In FY '91, ASG initiated measures to decrease the General Fund deficit by closely monitoring expenditures. By implementing this process, the General Fund deficit decreased no less than $4.5 million at the end of FY

See pp. 33-34.

MR. FRANK C. CONOHAN
February 4, 1992
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'91. ASG will continue this process during the next fiscal year(s) and eventually eliminate the General Fund deficit and replenish the already established contingency funds for future economic shortfall.

GAO Recommendations:

2. Aggressively collect all delinquent income taxes owed the government and consider withholding taxes at the source as a means of collecting tax on miscellaneous income.

Governor's Response:

The Tax Office will put more emphasis and implement a more aggressive system on the collection of delinquent income taxes using all available tools, e.g., payroll deductions, levies, installment payment plan and the last resort would be seizure of assets and properties. We will look into the possibility of withholding taxes at source as a means of collecting tax on miscellaneous income.

GAO Recommendations:

3. Determine the personnel needs of the collection and audit branches in the TAX office and provide any additional resources that are needed. (Governor should have reasonable assurance that the costs of adding personnel do not exceed the benefits of additional tax collection and audit efforts.

Governor's Response:

Collection Branch

At present the Tax Office has only six revenue officers responsible for collecting of the American Samoa delinquent taxes. We feel in order to effectively implement an aggressive collections system we need at least four more revenue officers to do the job. One point that we would like to mention is the fact that during the filing season (January 1 - April 15) every year, the Tax Office utilized the Revenue Officers to prepare income tax returns for the public as a result their collection efforts are somewhat suspended or drastically reduced during this three month period.

MR. FRANK C. CONOHAN
February 4, 1992
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Audit Branch

The Audit Branch has six revenue agents. We feel that we need at least three senior auditors added to the present number of auditors to carry out a strong and effective audit program for the Tax Office.

GAO Recommendations:

That the secretary of Interior take action to ensure that the Governor of American Samoa

A. Require the Director of Health Services to

1. strictly adhere to procedures for authorizing off-island medical referrals,

Governor's Response:

The Department of Health will adhere to procedures for authorizing off-island medical referral.

2. document off-island patient files showing that authorizing procedures have been followed and that the rationale for sending patients to facilities other than TRIPLER ARMY CENTER is appropriate,

Governor's Response:

Files will be kept with documents supporting the referrals to any facility other than Tripler Army Medical Center.

3. collect from patients requesting and receiving care at facilities other than Tripler the differences in cost,

Governor's Response:

If the patient prefers another hospital over TAMC (Tripler), arrangements will be made whereby the facility bills the patient directly for the difference. The LBJ will not act as a collecting agency.

4. fully describe in authorization letters the services and treatment for which American Samoa will be paying,

Governor's Response:

Authorization letter will indicate service and treatment that are authorized and will be paid by ASG.

MR. FRANK C. CONOHAN
February 4, 1992
Page 4

5. institute procedure to require patients to demonstrate that they have received the medical treatment authorized.

Governor's Response:

Procedures will be developed and implemented to show that treatments billed for were received by patients.

B. 3. Take disciplinary action against officials who violate section 10.0601 of American Samoa's Code by creating obligations and making expenditures that exceed appropriations.

Governor's Response:

See pp. 48-49.

The section 10.0601 ASCA is fully enforced by the Attorney General. Any officer or employee of the government who knowingly violates this section will be prosecuted accordingly.

C. Require the Director of Human Resources to implement personnel reduction goals as outlined in the governor's cost containment plan and strictly adhere to personnel budget ceilings by limiting the use of temporary appointment.

Governor's Response:

The Department of Human Resources is submitting the following item by item response to the findings regarding the issues raised in the GAO Preliminary Report.

FISCAL YEAR 1990 PERSONNEL REDUCTION NOT ACHIEVED

See p. 49.

The issue of Personnel Reduction raised by GAO in their preliminary report is based on the costs containment measures mandated in the Governor's Executive Order No. 7-1989. We agree with the GAO findings on this issue, however, several factors contributed to the increase in ASG employment and ASG not meeting the objective of eliminating 400 positions throughout government during Fiscal Year 1990. The factors are itemized as follows:

- The hiring of additional employees was necessary to provide emergency services in the aftermath of Hurricane Ofa. The emergency hired were involved in the recovery effort sponsored by the American Samoa Government and FEMA. The employees worked in debris clearing, emergency assistances, and other services related to the disaster. ASG did not anticipate a disaster prior to enformcement of

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the Executive Order No. 7-1989, however, Hurricane Ofa was a factor preventing ASG from accomplishing its objective of eliminating 400 positions from its workforce.

- ASG receives a substantial amount of federal funds from various U.S Agencies. The funds are granted through Federal Programs to the ASG to fund the administration of the federal programs. In Fiscal Year 1989, 1990, and 1991, hiring of additional staff to adminster the programs contributed to the increase in the ASG workforce. Although several of the newly hired employees' employment are dependent upon the life of the Federal Program, all employees are counted in the overall total ASG workforce. However, there is a decrease in the total of career service employees from 1988 as evident by Workforce Statistics Digest for American Samoa (Please see attachment).

In final analysis, ASG acknowledged the findings of GAO on this issue, however, it was necessary to increase the ASG workforce. The factors explained above is an indication that ASG was put on the spot to provide the services for its citizenship on situations beyond our control. Although ASG failed to meet its intended objective in FY 1990, fulfillment of this objective will be attained. In Fiscal Year 1991, there was a marked decrease in the number of ASG Career Services positions, a strong indication that ASG is working toward achieving its goal.

TEMPORARY AND EMERGENCY HIRES DID ADD TO COSTS AND CIRCUMVENT PERSONNEL CEILINGS

See p. 49.

ASG's position on this issue is unchanged as explained in the exit interview with GAO Auditors. The 256 additional employees were hired to provide a necessary emergency service contrary to statement apparently made by some government officers regarding retaining personnel after the emergency had passed.

As explained during the exit interview, ASG changed the status of the employees in question from Emergency to Temporary appointments because there was a dire need to retain these employees upon completion of the emergency.

In the case of the Department of Public Works, approximately 200 emergency employees were recruited to perform the necessary tasks in the ASG recovery effort. These tasks include debris clearing, assist the public in temporary home repairs, clearing public highways, and other tasks necessary during the aftermath of Hurricane Ofa. At the completion of

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the emergency period, about 50% of employees mostly skilled workers to assist in the repair of ASG facilities damaged by Hurricane Ofa.

The decision to retain 104 employees by the Lieutenant Governor, in consultation with the Directors of Human Resources, Public Works, and Budget Office was made to ensure ASG facilities will be adequately repaired to speed up the return of ASG employees to their original work places which were destroyed by Hurricane Ofa.

ASG disputes the GAO audit finding regarding DPW circumventing budgetary limitation. The temporary appointments as explained by ASG were retained because they were assigned to perform a specific task during the disaster. Furthermore, the Director of Program Planning and Budget was consulted prior to approval of the questioned personnel actions.

In regards to the hiring of an additional 22 Department of Health personnel, it is a matter of opinion on what constitutes an emergency appointment. ASG during the Exit Conference explained its position that the Department of Health's need for employees is considered critical because a hospital should be efficiently run to safeguard the health of all American Samoa citizens.

Table 10.1. LABOR FORCE AND EMPLOYMENT STATUS: 1985 TO 1989

Labor Force Status	1989	1988	1987	1986	1985
Persons 15 yrs and over	24,250	23,040	21,190	20,780	20,370
Labor Force	13,820	13,250	12,097	11,691	11,556
Percent	57.0	57.5	57.1	56.3	56.7
Employed	12,428	11,582	10,464	10,127	10,056
Government	4,299	4,282	3,800	3,863	3,960
Canneries	4,418	4,100	3,745	3,642	2,654
Others	3,711	3,200	2,919	2,622	3,442
Unemployed	1,392	1,668	1,633	1,564	1,500
Percent	10.1	12.6	13.5	13.4	13.0

SOURCE: Economic Development Planning Office.

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Table 10.2. AMERICAN SAMOA GOVERNMENT EMPLOYMENT BY STATUS: 1976 TO 1989

Year	Total	Contract Employees	Local Hire Employees	Special Programs	Part Time
1989	4,299	277	3,755	240	27
1988	4,282	482	3,800	-	-
1987	3,800	322	3,366	112	-
1986	3,863	257	3,444	154	8
1985	3,960	281	3,661	-	18
1984	3,664	189	3,125	338	12
1983	3,936	244	3,404	281	7
1982	3,705	195	3,134	273	103
1981	3,698	228	3,171	217	82
1980	4,168	251	3,325	496	96
1979	4,582	210	3,660	636	76
1978	3,837	181	2,836	820	-
1977	3,901	187	2,679	1,035	-
1976	3,293	161	2,816	316	-

SOURCE: Department of Human Resources.

D. Requires the Procurement Office to follow procurement regulations and implement recommendation by OIG to

1. limit award of sole source procurement

Governor's Response:

See p. 49.

Sole source procurements are limited to emergency purchases and procurements where there is only one known source. These purchases are required to be amply justified in writing and subjected to the review of the Chief Procurement Officer before issuance of purchase orders. On non-emergency or routine requirements, solicitations for competitive bidding are being followed to ensure compliance with the rules.

2. maintain complete and accurate records of procurement actions

Governor's Response:

Complete and accurate records of procurement transactions are maintain in sequential order both in the active working

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files and completed files. The bid file also contained all the required documentation to support the solicitation transactions. These files are constantly upkept to ensure proper documentation are in order.

3. ensure that all department directors are aware of their responsibilities to adhere to the procurement policies and subject persons to disciplinary action when he rules are violated.

Governor's Response:

Department directors and their respective procurement personnel are constantly being reminded of their responsibilities either verbally or via interdepartment if the rules are continually being violated. After-the-fact purchasing and other illegal transactions involving government procurement will not be processed by this office unless justified in writing. Only after a determination is made by the Chief Procurement Officer will these be processed.

GAO Recommendations:

That the secretary of Interior to take action to ensure that the Government of American Samoa:

1. Fills vacant positions in the Territorial Audit Office

Governor's Response:

See p. 62.

We are currently advertising for an Audit Manager and an Audit Technician positions. The Audit Manager position was recently advertised in the Wall Street Journal - Western Edition. Thus far, thirteen (13) candidates responded to our ad. Most of the candidates have CPA's and Master degrees with broad audits and managerial experience.

The two positions are anticipated to be filled by March 1992. Additional vacant positions will be filled when funding becomes available.

2. Submits monthly revenue and expenditure reports to Interior that provide complete, accurate, and meaningful information about the territory's financial condition.

Governor's Response:

See p. 62

We are currently submitting a monthly report on revenue

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and expenditures that provides complete, accurate, and meaningful information about the territory's financial condition as a part of our drawdown requirements. These reports are sent out on the 26th or 27th of each month.

3. initiates action to empower the hospital authority to charge residents for health care services and require the hospital authority to institute procedures to recover health care costs.

Governor's Response:

See p. 62

There is a proposal from the hospital authority in regards to this matter. This proposal is currently under review. The authority is recommending the following:

1. Increase in rates for inpatients and outpatients, as well as nonresidents from the present rate.

2. A minimum charge on all medication prescriptions.

In conclusion, letters which included the GAO Draft Audit Report were sent out to the following (attached):

1. Honorable President of the Senate - as of today, no response.

2. Honorable Speaker of the House of Representatives - as of today, no response.

3. Honorable Eni F.H. Faleomavaega of the U.S. House of Representatives (Former Lt. Governor) - responded with a letter saying no comments on the Audit Report.

4. Honorable A.P. Lutali (Former Governor) - responded with a letter saying no comments on the Audit Report.

Sincerely,

Peter T. Coleman
PETER TALI COLEMAN
Governor

PTC:jap

Enclosures

The following is GAO's comment on the America Samoa government's letter dated February 10, 1992.

GAO Comment

1. Copies of the letters that were enclosed with the government's response to our report were not printed.

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

Ronald A. Kushner, Assistant Director
Max E. Green, Evaluator-in-Charge
Steven K. Westley, Evaluator

Far East Office

Raymond M. Ridgeway, Senior Evaluator
Marvin E. Hanson, Evaluator
Jeffery D. Malcolm, Evaluator